

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the 2014 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2014 Bonds is exempt from California personal income taxation. See “CONCLUDING MATTERS – Tax Matters.”

\$18,555,000
BREA COMMUNITY BENEFIT FINANCING AUTHORITY
(ORANGE COUNTY, CALIFORNIA)
2014 WATER REVENUE BONDS

Dated: Date of Delivery

Due: July 1, as shown on the inside front cover

The Brea Community Benefit Financing Authority (the “Authority”) will issue its 2014 Water Revenue Bonds (the “2014 Bonds”) pursuant to an Indenture of Trust, dated as of August 1, 2014 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Proceeds from the sale of the 2014 Bonds will be used to: (i) repay an interfund loan made by the City of Brea (the “City”) to its Water Utility Fund from other available funds for the purchase of water rights completed in May 2014 for the benefit of the City’s water treatment, production, storage and distribution system (the “Water System”), and (ii) pay costs of issuance of the 2014 Bonds.

The 2014 Bonds, when issued, will be secured by a pledge of and payable from Revenues. Revenues will consist primarily of installment payments (the “2014 Installment Payments”) to be made by the City pursuant to an Installment Sale Agreement, dated as of August 1, 2014 (the “Installment Sale Agreement”), by and between the City and the Authority. The 2014 Installment Payments will be secured by a pledge of and payable from Net Revenues (consisting of certain revenues of the Water System less operation and maintenance costs). With respect to the pledge of the Net Revenues, the 2014 Installment Payments will rank on parity with the 2009 Installment Payments and 2010 Installment Payments (each as defined in this Official Statement). Upon satisfaction of the conditions set forth in the Installment Sale Agreement, the City may incur additional obligations secured by a pledge of Net Revenues on parity with the 2009 Installment Payments, the 2010 Installment Payments and the 2014 Installment Payments. See “SECURITY FOR THE 2014 BONDS.”

The 2014 Bonds will be subject to optional redemption and mandatory sinking fund redemption prior to maturity as described in this Official Statement.

Principal of the 2014 Bonds will be payable on their maturity dates set forth on the inside cover. Interest on the 2014 Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2015. The 2014 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the 2014 Bonds. Individual purchases of the 2014 Bonds may be made in book-entry form only, in integral multiples of \$5,000. Purchasers will not receive certificates representing their interest in the 2014 Bonds purchased. Principal of and interest, and premium, if any, on the 2014 Bonds will be paid directly to DTC by the Trustee. Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal, interest and premium, if any, to DTC participants for subsequent disbursement to the beneficial owners of the 2014 Bonds. See “2014 BONDS.”

THE 2014 BONDS WILL BE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES AND CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER. THE CITY’S OBLIGATION TO PAY 2014 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE CITY LIMITED SOLELY TO THE NET REVENUES. NO OTHER FUNDS OR PROPERTY OF THE CITY WILL BE LIABLE FOR THE PAYMENT OF THE 2014 INSTALLMENT PAYMENTS OR ANY OTHER AMOUNTS PAYABLE UNDER THE INSTALLMENT SALE AGREEMENT OR THE INDENTURE. NEITHER THE 2014 BONDS NOR THE OBLIGATION OF THE CITY TO MAKE 2014 INSTALLMENT PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION.

See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain of the risk factors that should be considered, in addition to other matters set forth in the Official Statement, in evaluating the investment quality of the 2014 Bonds. This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

STIFEL

The 2014 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the Authority and the City by Richards, Watson & Gershon, A Professional Corporation, as Disclosure Counsel, Authority Counsel and City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport, California. It is anticipated that the 2014 Bonds will be available for delivery in book-entry form through the facilities of DTC on or about August 28, 2014.

Dated: August 12, 2014

\$18,555,000
BREA COMMUNITY BENEFIT FINANCING AUTHORITY
(ORANGE COUNTY, CALIFORNIA)
2014 WATER REVENUE BONDS

MATURITY SCHEDULE
\$9,440,000 Serial Bonds

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† (Base: 106263)
2015	\$255,000	4.000%	0.210%	103.185	AA4
2016	315,000	4.000	0.370	106.655	AB2
2017	325,000	4.000	0.620	109.505	AC0
2018	340,000	4.000	0.880	111.759	AD8
2019	355,000	4.000	1.230	112.979	AE6
2020	370,000	5.000	1.500	119.503	AF3
2021	385,000	5.000	1.730	121.011	AG1
2022	405,000	4.000	2.030	114.212	AH9
2023	420,000	5.000	2.250	121.934	AJ5
2024	445,000	5.000	2.410	122.568	AK2
2025	465,000	5.000	2.630	120.429 ^(c)	AL0
2026	490,000	5.000	2.790	118.901 ^(c)	AM8
2027	515,000	5.000	2.870	118.146 ^(c)	AN6
2028	540,000	5.000	2.960	117.303 ^(c)	AP1
2029	565,000	5.000	3.040	116.559 ^(c)	AQ9
2030	595,000	5.000	3.120	115.822 ^(c)	AR7
2031	625,000	5.000	3.190	115.181 ^(c)	AS5
2032	655,000	3.250	3.510	96.571	AT3
2033	675,000	3.375	3.560	97.473	AU0
2034	700,000	3.500	3.610	98.447	AV8

\$4,005,000 5.000% Term Bond due July 1, 2039, Yield 3.610%, Price: 111.423^(c); CUSIP†: 106263AW6
\$5,110,000 5.000% Term Bond due July 1, 2044, Yield 3.660%, Price: 110.985^(c); CUSIP†: 106263AX4

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP® data in this Official Statement is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP® numbers are provided for convenience of reference only. None of the Authority, the City nor the Underwriter takes any responsibility for the accuracy of such numbers.

(c) Yield and price to first optional redemption date of July 1, 2024 at par.

BREA COMMUNITY BENEFIT FINANCING AUTHORITY
City of Brea
Orange County, California

AUTHORITY BOARD/CITY COUNCIL

Brett Murdock, Chair/Mayor
Christine Marick, Vice-Chair/Mayor Pro Tem
Ron Garcia, Director/Council Member
Roy Moore, Director/Council Member
Marty Simonoff, Director/Council Member

AUTHORITY/CITY STAFF

Tim O'Donnell, Authority Executive Director/City Manager
Glenn G. Parker, City Treasurer
Cheryl Balz, Authority Secretary/City Clerk
Bill Gallardo,
Assistant Authority Treasurer/Assistant City Manager/Administrative Services Director
Lee Squire, Financial Services Manager – Accounting
Faith Madrazo – Revenue and Budget Manager
Eric Nicoll, Public Works Director
Ron Krause, Water Distribution Superintendent

SPECIAL SERVICES

Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Disclosure Counsel

Richards, Watson & Gershon, A Professional Corporation
Los Angeles, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Financial Advisor

Fieldman, Rolapp & Associates
Irvine, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the 2014 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2014 Bonds.

Estimates and Forecasts. Certain statements included or incorporated by reference in this Official Statement and in any continuing disclosure by the Authority or the City, any press release and in any oral statement made with the approval of an authorized officer of the Authority, the City or any other entity described or referenced herein, constitute “forward-looking statements.” Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “anticipate,” “estimate,” “budget” or other similar words and include, but are not limited to, statements under the captions “PLAN OF FINANCING,” “WATER SYSTEM” and “WATER SYSTEM FINANCIAL INFORMATION.” The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the City has undertaken to provide certain on-going financial and other data pursuant to a continuing disclosure certificate (see “CONCLUDING MATTERS – Continuing Disclosure” and APPENDIX E), the Authority and the City do not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based change.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations in connection with the offer or sale of the 2014 Bonds other than those contained in this Official Statement and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2014 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information as of Dated Date of Official Statement. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made of the 2014 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or any other entity described or referenced in this Official Statement since the dated date shown on the front cover. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the 2014 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2014 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover and said public offering prices may be changed from time to time by the Underwriter.

THE 2014 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2014 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAW OF ANY STATE.

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\$18,555,000
BREA COMMUNITY BENEFIT FINANCING AUTHORITY
(ORANGE COUNTY, CALIFORNIA)
2014 WATER REVENUE BONDS

INTRODUCTION

This Introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to for more complete information with respect to matters concerning the 2014 Bonds. Potential investors are encouraged to read the entire Official Statement.

General

This Official Statement, including the cover page, the inside front cover and appendices, is provided to furnish information in connection with the sale by the Brea Community Benefit Financing Authority (the “Authority”) of its \$18,555,000 2014 Water Revenue Bonds (the “2014 Bonds”). The 2014 Bonds will be issued pursuant to: (a) the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the California Government Code, including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 thereof (the “Bond Law”); (b) a resolution of the Authority adopted on August 5, 2014; and (c) an Indenture of Trust, dated as of August 1, 2014 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

Proceeds from the sale of the 2014 Bonds will be used to: (i) repay an interfund loan made by the City of Brea (the “City”) to its Water Utility Fund from other available funds for the purchase of water rights completed in May 2014 for the benefit of the City’s water treatment, production, storage and distribution system (the “Water System”), and (ii) pay costs of issuance of the 2014 Bonds. See “PLAN OF FINANCING.”

Interest on the 2014 Bonds will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2015. The 2014 Bonds will mature in the amounts and on the dates and bear interest at the rates shown on the inside front cover of this Official Statement.

The 2014 Bonds will be initially delivered as one fully registered certificate for each maturity (unless there are different interest rates within such maturity, then one certificate for each interest rate within such maturity) and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”). DTC will act as the depository for the 2014 Bonds and all payments due on the 2014 Bonds will be made to Cede & Co. Ownership interests in the 2014 Bonds may be purchased only in book-entry form. So long as the 2014 Bonds are registered in the name of Cede & Co., or any other nominee of DTC, references in this Official Statement to the registered owners, or just “Owners” of the 2014 Bonds shall mean Cede & Co. or such other nominee of DTC, and shall not mean the beneficial owners of the 2014 Bonds. See “2014 BONDS – Book-Entry Only System” and “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM.”

City of Brea

The City encompasses approximately 11.2 square miles and is located at the northern end of Orange County, California (the “County”), just south of the Los Angeles County line. The City’s population was approximately 42,397 as of January 1, 2014, according to California Department of Finance estimates. The City Council is composed of five members elected at large every two years to four-year alternating terms. The City Council appoints the City Manager, who is responsible for the day-to-day administration of City business and the coordination of all departments of the City. For further general information regarding the City, see “APPENDIX A – SUPPLEMENTAL INFORMATION ABOUT CITY OF BREA.”

Water System

The City’s Water System was established in 1920. Through the Water System, the City provides potable water service to its residential, commercial, industrial and other customers. The water service area (the “Service Area”) covers approximately 10.7 square miles and includes all of the territory within the City limits (other than approximately 80 residences served by the Yorba Linda Water District) and a portion of adjacent unincorporated County area. Existing facilities of the Water System include over 162 miles of pipelines, six storage reservoirs, four booster pumping stations, 85 pressure reducing stations, two rate of flow control stations, three supply connections with CDWC, three supply connections with MWD and five emergency interconnections with neighboring agencies.

As of June 30, 2014, approximately 10,657 (or 83.73 percent) of the Water System’s 12,728 accounts are residential customers. For fiscal year 2013-14, residential customers accounted for 53.23 percent of the Water System’s revenues derived from customer water usage. See tables under the caption “WATER SYSTEM – Customer Accounts, Revenues and Consumption.”

The City acquires almost all of its water supply from two wholesale water producers: California Domestic Water Company (“CDWC”), a California mutual water company, and Metropolitan Water District of Orange County (“MWDOC”). The City has one groundwater well that provides water solely for the irrigation of a municipal golf course. For fiscal year 2013-14, approximately 30 percent of the City’s water supply came from MWDOC and approximately 70 percent came from CDWC.

MWDOC is a member of Metropolitan Water District of Southern California (“MWD”). All of the water that MWDOC sells to its members, including the City, comes from MWD. MWD has two principal sources of water, the California State Water Project and the Colorado River Aqueduct. Generally, the water supplied by MWD to the City and the surrounding areas is comprised of a blend of both sources depending on the availability. See “WATER SYSTEM – Water Supply – *Metropolitan Water District of Orange County; Metropolitan Water District of Southern California*” regarding the low volume of allocation in 2014 from the State Water Project in light of recent drought conditions.

CDWC owns adjudicated rights to the Main San Gabriel Basin in eastern Los Angeles County. As a California mutual water company, CDWC delivers and distributes water to its shareholders at cost, plus expenses. As of June 1, 2014, the City owns 1,811.5 shares of CDWC

common stock (out of 7,870.5 shares issued and outstanding) and 2,190.55 shares of Class A preferred stock (out of 2,190.55 shares issued and outstanding), including the shares that the City purchased in May 2014. See “PLAN OF FINANCING.” The amount of water that a CDWC common stock shareholder is entitled to acquire from CDWC each year is proportional to the number of shares of stock that the shareholder owns. CDWC Class A preferred stocks do not provide its holders any voting rights, but each share of Class A preferred stock generally entitles its holder to one acre-foot of water per year. From time to time, the City also leases additional shares from other CDWC shareholders who do not use their full entitlement.

See “WATER SYSTEM” and “WATER SYSTEM FINANCIAL INFORMATION” for more information about the Water System.

Security for 2014 Bonds

The 2014 Bonds, when issued, will be secured by a pledge of and payable from Revenues. Revenues will consist primarily of installment payments (the “2014 Installment Payments”) made by the City pursuant to an Installment Sale Agreement dated as of August 1, 2014 (the “Installment Sale Agreement”), by and between the City and the Authority. The 2014 Installment Payments will be secured by a pledge of and payable by the City from Net Revenues. Net Revenues consist of certain revenues of the Water System less operation and maintenance costs of the Water System. See “SECURITY FOR THE 2014 BONDS – Pledge of Net Revenues; Water Utility Fund.”

With respect to the pledge of Net Revenues, the 2014 Installment Payments rank on parity with certain installment payments (respectively, the “2009 Installment Payments” and the “2010 Installment Payments”) payable by the City under two agreements previously entered into by and between the City and the Authority, namely:

- (i) the Installment Sale Agreement, dated as of May 1, 2009 (the “2009 Installment Sale Agreement”), executed in connection with the issuance of the Authority’s 2009 Water Revenue Refunding Bonds, Series A (Bank Qualified), in an original principal amount of \$12,855,000 (the “2009A Bonds”) and the Authority’s 2009 Water Revenue Bonds, Series B (Federally Taxable – Build America Bonds – Direct Payment) in an original principal amount of \$12,945,000 (the “2009B Bonds” and, together with the 2009A Bonds, the “2009 Bonds”); and
- (ii) the Installment Sale Agreement, dated as of April 1, 2010 (the “2010 Installment Agreement”), which was executed in connection with the issuance of the Authority’s 2010 Water Revenue Bonds (Solar and Energy Efficiency Projects), Series A, in an original principal amount of \$2,410,000 (the “2010A Bonds”) and the Authority’s 2010 Water Revenue Bonds (Solar and Energy Efficiency Projects), Series B (Federally Taxable – Build America Bonds – Direct Payment) in an original principal amount of \$9,885,000 (the “2010B Bonds” and, together with the 2010A Bonds, the “2010 Bonds”).

As of July 2, 2014, the outstanding principal amount of the 2009 Bonds and the 2010 Bonds are as follows: \$10,460,000 of 2009A Bonds, \$12,945,000 of 2009B Bonds, \$1,045,000 of 2010A Bonds and \$9,885,000 of 2010B Bonds. Upon satisfaction of the conditions set forth in the

Installment Sale Agreement, the City may incur additional obligations (the “Additional Parity Debt”) secured by a pledge of Net Revenues on parity with the 2009 Installment Payments, the 2010 Installment Payments and the 2014 Installment Payments.

Pursuant to the Indenture, the Authority will assign to the Trustee for the benefit of the Owners of the 2014 Bonds, certain of the Authority’s rights under the Installment Sale Agreement, including the Authority’s rights to receive and enforce the payment by the City of the 2014 Installment Payments. The City covenants under the Installment Sale Agreement that, while the 2014 Bonds remain Outstanding, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each fiscal year, so that Net Revenues will be equal to at least 125 percent of the aggregate amount payable by the City during such Fiscal Year with respect to the 2009 Installment Payments, the 2010 Installment Payments, the 2014 Installment Payments and any Additional Parity Debt (collectively, the “Parity Debt”).

No debt service reserve account for the 2014 Bonds has been established under the Indenture or the Installment Sale Agreement.

The 2014 Bonds will be limited obligations of the Authority, payable solely from and secured by a pledge of Revenues and certain funds and accounts held under the Indenture. The Authority has no taxing power. The City’s obligation to pay 2014 Installment Payments is a special obligation of the City limited solely to the Net Revenues. Under no circumstances will the City be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the 2014 Installment Payments. No other funds or property of the City will be liable for the payment of the 2014 Installment Payments or any other amounts payable under the Installment Sale Agreement or the Indenture.

See “SECURITY FOR THE 2014 BONDS” and “BONDOWNERS’ RISKS.”

Professionals Involved in the Offering

U.S. Bank National Association, Los Angeles, California, will act as the Trustee with respect to the 2014 Bonds.

Fieldman, Rolapp & Associates, Irvine, California, has served as Financial Advisor to the Authority and the City in connection with the issuance of the 2014 Bonds.

All proceedings in connection with the issuance of the 2014 Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the Authority and the City by Richards, Watson & Gershon, A Professional Corporation, as Disclosure Counsel, Authority Counsel and City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

Continuing Disclosure

In connection with the sale of the 2014 Bonds, the City will execute a Continuing Disclosure Certificate, covenanting to prepare and deliver an annual report and certain other information to the Municipal Securities Rulemaking Board (“MSRB”), via its Electronic Municipal Market Access (“EMMA”) system. See “CONCLUDING MATTERS – Continuing Disclosure” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Other Information

This Official Statement contains brief descriptions of the 2014 Bonds, the Indenture, the Installment Sale Agreement, various other documents and legislation. The descriptions and summaries do not purport to be comprehensive or definitive, and reference is made to each such document or law for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and legislation and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Capitalized terms with respect to the 2014 Bonds that are used but not defined herein shall have the meanings set forth in the Indenture, or if not in the Indenture, in the Installment Sale Agreement. Copies of the Indenture and the Installment Sale Agreement are available for inspection during business hours at the corporate trust office of the Trustee in Los Angeles, California.

This Official Statement speaks only as of its date as set forth on the cover, and the information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made with respect to the 2014 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the City since the date of this Official Statement.

Unless otherwise expressly noted, references to internet websites in this Official Statement are shown for reference and convenience only, and none of their content (including the City’s website) is incorporated by reference. The Authority and the City make no representation to potential investors of the 2014 Bonds regarding the accuracy or completeness of the information presented on such websites.

PLAN OF FINANCING

Acquisition of Additional Water Rights (CDWC Shares)

The City acquires almost all of its water supply from two wholesale water producers: CDWC and MWDOC. As a CDWC shareholder, the City is entitled to acquire each year a portion of the water that CDWC receives from the Main San Gabriel Basin based on the City’s ownership of CDWC shares. The City has from time to time increased its CDWC entitlement by leasing shares from other CDWC shareholders. In addition, to the extent available, CDWC has allowed its shareholders to pump in excess beyond their annual entitlement with the payment of an additional groundwater replenishment fee.

In recent years, prices for water purchases from both CDWC and MWDOC have increased. The average cost per acre-foot of water purchased from CDWC increased from

\$471.97 in fiscal year 2009-10 to \$509.70 in fiscal year 2013-14. The average cost per acre-foot of water purchased from MWDOC increased from \$750.87 in fiscal year 2009-10 to \$961.10 in fiscal year 2013-14. The increases have been in large part due to a combination of local drought conditions, regulatory restrictions and reduced flow from the Colorado River, resulting in a decreased volume of water supply to CDWC and MWDOC.

Historically, water purchases from CDWC have been less expensive than water purchases from MWDOC. Furthermore, the per acre-foot cost to the City for CDWC water based on the City’s share entitlement as a CDWC stockholder is significantly less than the per acre-foot cost for CDWC water purchased above the City’s share entitlement. There are two types of CDWC stocks: common shares and Class A preferred shares. In order to achieve cost savings, the City increased its CDWC stock ownership in each of fiscal years 2010-11 through 2013-14, by using a combination of proceeds from the sale of the 2009 Bonds and other available City funds to acquire CDWC common shares and preferred shares.

On April 21, 2014, the City received an offer for additional 1,277.72 shares of CDWC Class A preferred stock at \$16,000 per share, for total purchase price of \$20,443,520. On May 15, 2014, the City completed the purchase of all of such 1,277.72 shares, by making a temporary borrowing (the “Interfund Loan”) from other available City funds to the City’s Water Utility Fund. A portion of the proceeds from the sale of the 2014 Bonds will be used to repay such Interfund Loan upon the issuance of the 2014 Bonds.

See “WATER SYSTEM – Water Supply” for a more detailed discussion regarding MWDOC and CDWC, the City’s purchases from these water suppliers, and the related costs.

Sources and Uses of Funds

The following table provides a summary of the anticipated sources and uses of the proceeds of the 2014 Bonds. None of the proceeds of the 2014 Bonds will be used to fund a debt service reserve account. Neither the Indenture nor the Installment Sale Agreement provides for the establishment of a debt service reserve account for the 2014 Bonds.

Sources:	
Principal amount	\$18,555,000.00
Plus: Net original issue premium	2,174,709.55
Less: Underwriter’s discount	<u>(102,722.08)</u>
Total Sources	<u><u>20,626,987.47</u></u>
Uses:	
Repayment of Interfund Loan for CDWC water right purchase	\$20,443,520.00
Costs of Issuance ⁽¹⁾	<u>183,467.47</u>
Total Uses	<u><u>20,626,987.47</u></u>

⁽¹⁾ To pay fees and expenses of Bond Counsel, Disclosure Counsel and Trustee, rating fees, costs of printing this Official Statement and other costs of issuance.

2014 BONDS

Description

The 2014 Bonds will be issued in fully registered form, and will bear interest at the rates, and mature on July 1 in the years and in the amounts all as set forth on the inside front cover of this Official Statement. The 2014 Bonds will be issued in integral multiples of \$5,000 and will be dated their date of delivery.

Interest on the 2014 Bonds will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2015 (each, an “Interest Payment Date”), and will be calculated on the basis of a 360-day year composed of twelve 30-day months. Each 2014 Bond will bear interest from the Interest Payment Date next preceding the date of authentication of such 2014 Bond, unless: (i) the 2014 Bond is authenticated on or before an Interest Payment Date but after the close of business on the fifteenth calendar day of the month preceding such Interest Payment Date (a “Record Date”) and, in which event it will bear interest from such Interest Payment Date; (ii) the 2014 Bond is authenticated on or before December 15, 2014, in which event it will bear interest from the date of delivery; or (iii) if, as of the date of authentication of any 2014 Bond, interest thereon is in default, such 2014 Bond will bear interest from the date to which interest has been paid in full, payable on each Interest Payment Date.

The 2014 Bonds will be initially delivered as one fully registered certificate for each maturity (unless the 2014 Bonds of such maturity bear different interest rates, then one certificate for each interest rate among such maturity) and will be delivered by means of the book-entry system of DTC. While the 2014 Bonds are held in DTC’s book-entry only system, all such payments will be made to Cede & Co., as the registered owner of the 2014 Bonds. See “Book-Entry Only System” below.

Redemption

Optional Redemption. The 2014 Bonds maturing on or before July 1, 2024 will not be subject to optional redemption prior to their stated maturities. The 2014 Bonds maturing on or after July 1, 2025 will be subject to redemption, as a whole or in part, among maturities on such basis as the Authority may designate and by lot within a maturity, at the option of the Authority, on any date on or after July 1, 2024, from any available source of funds, at a redemption price equal to 100 percent of the principal amount of the 2014 Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The 2014 Bonds maturing on July 1, 2039 and July 1, 2044 (the “Term Bonds”) will be subject to mandatory redemption in part by lot, at a redemption price equal to 100 percent of the principal amount of such Term Bonds to be redeemed, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, that if some but not all of the Term Bonds of a maturity have been optionally redeemed pursuant to the Indenture (see “Optional Redemption” above), the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000, as designated by the Authority.

Term Bonds Maturing on July 1, 2039

Redemption Date (July 1)	Principal Amount
2035	\$ 725,000
2036	760,000
2037	800,000
2038	840,000
2039 [†]	880,000

[†] maturity.

Term Bonds Maturing on July 1, 2044

Redemption Date (July 1)	Principal Amount
2040	\$ 925,000
2041	970,000
2042	1,020,000
2043	1,070,000
2044 [†]	1,125,000

[†] maturity.

Notice of Redemption. The Trustee will send notices of not less than 30 nor more than 60 days prior to any redemption date, to the respective Owners of any 2014 Bonds designated for redemption at their addresses appearing on the Trustee's registration books and to one or more Securities Depositories and the Municipal Securities Rulemaking Board. Neither the failure to receive any such notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date.

Right to Rescission of Redemption. The Authority has the right to rescind any notice of the optional redemption of the 2014 Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2014 Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Authority and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will send notice of such rescission of redemption to the 2014 Bond Owners in the same manner as the original notice of redemption was sent.

Selection of Bonds for Redemption. Whenever provision is made for the redemption of less than all of the 2014 Bonds of a single maturity, the Trustee will select the 2014 Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee will treat each 2014 Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate 2014 Bond.

Effect of Redemption. If notice of redemption has been duly given and money for payment of the redemption price (including interest accrued to the date fixed for redemption, including any applicable premium) of the 2014 Bonds (or portions of the 2014 Bonds) called for redemption has been provided to the Trustee, such Bonds (or portions of the 2014 Bonds) so called will become due and payable, interest on the 2014 Bonds so called for redemption will cease to accrue, and such 2014 Bonds (or portions of the 2014 Bonds) will cease to be entitled to any benefit or security under the Indenture, other than the right to receive payment of the redemption price thereof.

Book-Entry Only System

The 2014 Bonds will be issued as one fully registered bond without coupons for each maturity (unless there are different interest rates within such maturity, then one certificate for each interest rate within such maturity) and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the 2014 Bonds. Individual purchases may be made in book-entry form only, in integral multiples of \$5,000. Purchasers will not receive certificates representing their interest in the 2014 Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the 2014 Bonds as described in this Official Statement. So long as DTC's book-entry system is in effect with respect to the 2014 Bonds, notices to Owners of the 2014 Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication sent by DTC to its participants, and then to the beneficial owners of the 2014 Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See "APPENDIX F – DTC'S BOOK-ENTRY ONLY SYSTEM."

In the event that such book-entry system is discontinued with respect to the 2014 Bonds, the Authority will execute and deliver replacements in the form of registered certificates and, thereafter, the 2014 Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture. In addition, the following provisions would then apply: Interest on the 2014 Bonds will be payable by check of the Trustee mailed by first class mail to the persons whose names appear in the Trustee's registration book as the Owners of the 2014 Bonds as of the Record Date (*i.e.*, the fifteenth day of the month preceding the Interest Payment Date) at the addresses of such Owners appearing on the registration books. However, at the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the 2014 Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the corporate trust office of the Trustee in Los Angeles, California (or such other or additional offices as the Trustee may designate from time to time).

Annualized Debt Service

The following table shows the annualized debt service on the 2014 Bonds, without regard to any optional redemption.

Bond Year Ending July 1	Principal	Interest	Annual Debt Service
2015	\$ 255,000	\$ 736,347.87	\$ 991,347.87
2016	315,000	864,668.76	1,179,668.76
2017	325,000	852,068.76	1,177,068.76
2018	340,000	839,068.76	1,179,068.76
2019	355,000	825,468.76	1,180,468.76
2020	370,000	811,268.76	1,181,268.76
2021	385,000	792,768.76	1,177,768.76
2022	405,000	773,518.76	1,178,518.76
2023	420,000	757,318.76	1,177,318.76
2024	445,000	736,318.76	1,181,318.76
2025	465,000	714,068.76	1,179,068.76
2026	490,000	690,818.76	1,180,818.76
2027	515,000	666,318.76	1,181,318.76
2028	540,000	640,568.76	1,180,568.76
2029	565,000	613,568.76	1,178,568.76
2030	595,000	585,318.76	1,180,318.76
2031	625,000	555,568.76	1,180,568.76
2032	655,000	524,318.76	1,179,318.76
2033	675,000	503,031.26	1,178,031.26
2034	700,000	480,250.00	1,180,250.00
2035	725,000	455,750.00	1,180,750.00
2036	760,000	419,500.00	1,179,500.00
2037	800,000	381,500.00	1,181,500.00
2038	840,000	341,500.00	1,181,500.00
2039	880,000	299,500.00	1,179,500.00
2040	925,000	255,500.00	1,180,500.00
2041	970,000	209,250.00	1,179,250.00
2042	1,020,000	160,750.00	1,180,750.00
2043	1,070,000	109,750.00	1,179,750.00
2044	1,125,000	56,250.00	1,181,250.00
Total	<u>\$18,555,000</u>	<u>\$16,651,898.05</u>	<u>\$35,206,898.05</u>

SECURITY FOR 2014 BONDS

Pledge of Revenues under Indenture

Revenues, as defined in the Indenture, means: (a) all of the 2014 Installment Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture. Under the Indenture, the Authority assigns to the Trustee the Authority's rights, title and interest in the Installment Sale Agreement (with certain limited exceptions), including the right to receive 2014 Installment Payments to be made by the City under the Installment Sale Agreement. As a result of such assignment, all 2014 Installment Payments will be made by the City directly to the Trustee. Pursuant to the Indenture, the Trustee will promptly deposit all Revenues received into a Bond Fund.

No debt service reserve account for the 2014 Bonds has been established under the Indenture or the Installment Sale Agreement.

The 2014 Bonds are limited obligations of the Authority payable solely from and secured by a pledge of Revenues and certain funds and accounts held under the Indenture. The Authority has no taxing power. The City's obligation to pay 2014 Installment Payments is a special obligation of the City limited solely to the Net Revenues. Under no circumstances will the City be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the 2014 Installment Payments. No other funds or property of the City are liable for the payment of the 2014 Installment Payments or any other amounts payable under the Installment Sale Agreement or the Indenture. Neither the 2014 Bonds nor the obligation of the City to make 2014 Installment Payments constitute indebtedness of the Authority, the City, the State or any of its political subdivisions within the meaning of any constitutional debt limitation.

Pledge of Net Revenues; Water Utility Fund

General. Pursuant to the Installment Sale Agreement, the 2014 Installments will be secured by and payable from Net Revenues (see definition below) of the Water System. With respect to such pledge of and lien on the Net Revenues, the 2014 Installment Payments rank on parity with the 2009 Installments, the 2010 Installments and any Additional Parity Debt that may be incurred by the City upon satisfaction of the conditions set forth in the Installment Sale Agreement. See "Additional Parity Debt" below.

The 2009B Bonds and the 2010B Bonds (see "INTRODUCTION – Security for 2014 Bonds") to which a portion of the 2009 Installment Payments and a portion of the 2010 Installment Payment relate, were issued as "Build America Bonds" under Section 54AA of the Internal Revenue Code of 1986, as amended (the "Tax Code"). The Authority is eligible for a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009B Bonds and the 2010B Bonds. Such cash subsidy payments are referred to in this Official Statement as the "Refundable Credits." Pursuant to the indentures for the 2009 Bonds and the 2010 Bonds, the Refundable Credits are pledged to the payment of 2009B Bonds and the 2010B Bonds, respectively. The Refundable Credits are not available for the payment of the 2014 Bonds. However, because the Trustee applies all Refundable Credits received as credits towards related 2009 Installment Payments and the 2010 Installment Payments, the Refundable

Credits (to the extent received) effectively reduce the amount of Net Revenues required for aggregate debt service on the Parity Debt (including the 2014 Installment Payments). The Refundable Credits do not constitute a full faith and credit guarantee of the United States and are subject to reduction or even elimination under certain circumstances. See discussion under “BONDOWNERS’ RISKS – Refunding Credits Relating to Parity Bonds (2009 Bonds and 2010 Bonds)” regarding reduction to Refundable Credits currently in effect as the result of federal government spending cut measures.

Application of Gross Revenues from Water Utility Fund. Under the Installment Sale Agreement, the City covenants that all Gross Revenues (see definition below) of the Water System will be deposited by the City in a Water Utility Fund, which has previously been established by the City. In addition, the City will be required to withdraw from the Water Utility Fund such amounts and at such times as shall be required to pay in the following order of priority:

- (i) all Operation and Maintenance Costs (defined below),
- (ii) the 2014 Installment Payments and all payments of principal of and interest on any other Parity Debt (including the 2009 Installment Payments and the 2010 Installment Payments),
- (iii) any other payments required to comply with the provisions of the Installment Sale Agreement, and any Parity Debt Documents, and
- (iv) any other purposes authorized pursuant to the Installment Sale Agreement (including (a) the payment of any subordinate obligations or any unsecured obligations, (b) the acquisition and construction of improvements to the Water System, (c) the prepayment of any other obligations of the City relating to the Water System, or (d) any other lawful purposes of the City).

In determining the amount required to be deposited with the Trustee on any Installment Payment Date, all amounts then held by the Trustee in the Bond Fund and the accounts therein, will be credited towards the 2014 Installment Payment then due.

Certain Definitions. The terms “Gross Revenues,” “Operation and Maintenance Costs” and “Net Revenues,” are defined in the Installment Sale Agreement as follows:

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to investment earnings thereon; but excluding: (a) connection charges, (b) the proceeds of any *ad valorem* property taxes levied for the purpose of paying general obligation bonds of the City relating to the Water System, (c) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City levied for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Water System and (d) Refundable Credits.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Water System, including but not limited to: (a) costs of acquisition of water to be supplied by the Water System, (b) costs of electricity and other forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water System; but in all cases excluding: (i) debt service payable on obligations incurred by the City with respect to the Water System, including but not limited to the 2014 Installment Payments and any Parity Debt, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

Rate Covenants

The City covenants under the Installment Sale Agreement that, while the 2014 Bonds remain Outstanding, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Bond Year, which are at least sufficient, after making allowances for contingencies and errors in the estimates, to yield Gross Revenues (excluding any amounts transferred to the Water Utility Fund from a Rate Stabilization Fund) which are sufficient to pay the following amounts in the following order of priority:

- (A) All Operation and Maintenance Costs estimated by the City to become due and payable in such Bond Year;
- (B) All 2014 Installment Payments, the 2009 Installment Payments, the 2010 Installment Payments and all payments of principal of and interest on any other Parity Debt as they become due and payable during such Bond Year, without preference or priority, except to the extent any of such payments are payable from bond proceeds or from any other source of legally available funds of the City which have been deposited with the Trustee prior to the commencement of the related Bond Year (but subject to a reduction based on the Refundable Credits as described below);
- (C) All Additional Payments and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Bond Year.

In addition, the City agrees to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Bond Year which are sufficient to yield Net Revenues which are at least equal to 125 percent of the amount described in the preceding clause (B) for such Bond Year. For purposes of this paragraph, the amount of Net Revenues for a Bond Year will be computed on the basis that (1) any transfers into the Water Utility Fund in that Bond Year from the Rate Stabilization Fund are included in the calculation

of Net Revenues, and (2) any deposits into the Rate Stabilization Fund in that Bond Year are deducted from the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during that Bond Year. See “Rate Stabilization Fund” below.

In computing the amount of the 2014 Installment Payments and principal of and interest on any Parity Debt coming due on any Installment Payment Date for purposes of the foregoing covenants, such amount shall be reduced by the full amount of the Refundable Credits which the City expects to receive on the next succeeding Interest Payment Date with respect to the 2009B Bonds and the 2010B Bonds.

See “CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES – Proposition 218: Article XIII C and Article XIII D” and “APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Installment Sale Agreement – Other Covenants of the City – Rates and Charges.”

Application of Revenues Under Indenture

Under the Indenture, Revenues received by the Trustee in connection with an optional prepayment of the 2014 Installment Payments under the Installment Sale Agreement will be deposited in a Redemption Fund and used to pay the redemption price of the 2014 Bonds that are called as the result of such prepayment. See “2014 BONDS – Redemption – *Optional Redemption*.” All other Revenues received by the Trustee will be deposited in the Bond Fund established under the Indenture.

On or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund), the amounts specified in the Indenture in the following order of priority:

- (A) Interest Account (to pay interest becoming due and payable on such Interest Payment Date on all 2014 Bonds then Outstanding), and
- (B) Principal Account (to pay principal becoming due and payable on such Interest Payment Date, including the principal amount of Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date).

See “APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture of Trust – Establishment of Funds and Accounts; Flow of Funds.”

Rate Stabilization Fund

The City may, but is not required to, establish a fund or an account, called the “Rate Stabilization Fund” in the Installment Sale Agreement, to be held by it and administered in accordance the Installment Sale Agreement, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the 2014

Installment Payments and any other Parity Debt, as the City may determine. The Rate Stabilization Fund will be accounted for as a separate fund or account, although amounts credited to it may be commingled with other funds of the City.

The City may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Utility Fund in any Fiscal Year for the purpose of paying the 2014 Installment Payments or the principal of and interest on any Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Utility Fund in any Fiscal Year constitute Gross Revenues for that Fiscal Year (except as otherwise provided in the Installment Sale Agreement), and will be applied for the purposes of the Water Utility Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not otherwise secure the 2014 Installment Payments or any Parity Debt. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

As of the date of this Official Statement, the City has not deposited any money into the Rate Stabilization Fund.

Additional Parity Debt

Except for obligations incurred to prepay or discharge the 2014 Installment Payments, the 2009 Installment Payments, the 2010 Installment Payments or any other Parity Debt (which may be issued or incurred without meeting the following requirements, so long as the amount of annual debt service payment coming due in each Bond Year is reduced as a result of such refunding), the City may not issue or incur any Additional Parity Debt unless the following conditions are satisfied:

- (A) No Event of Default under the Installment Sale Agreement will have occurred and be continuing.
- (B) The Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements are available, or any more recent consecutive 12-month period selected by the City at its option, in either case verified by a certificate or opinion of an independent certified public accountant or fiscal consultant employed by the City, plus the Additional Revenues, at least equal 125 percent of the amount of Maximum Annual Debt Service with respect to the 2014 Installment Payments, the 2009 Installment Payments, the 2010 Installment Payments and all other Parity Debt then outstanding (including the Additional Parity Debt then proposed to be issued.). For purposes of this paragraph (b), the amount of Maximum Annual Debt Service with respect to the 2014 Installment Payments, the 2009 Installment Payments and Parity Debt will be reduced by the full amount of Refundable Credits which the City expects the Trustee to receive in such Bond Year.

Additional Revenues means, with respect to the issuance of any Additional Parity Debt, any or all of the following amounts:

- (A) An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be financed from the proceeds of such Additional Parity Debt or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any other 12-month period selected by the City, were not in service, all in an amount equal to 90 percent of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer or fiscal consultant employed by the City.
- (B) An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such Additional Parity Debt but which, during all or any part of the latest Fiscal Year or such other 12-month period selected by the City, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such other 12-month period, all as shown by the certificate or opinion of an independent certified public accountant or fiscal consultant employed by the City.

See “APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Installment Sale Agreement – Issuance of Parity Debt.”

In addition to Additional Parity Debt described above, the City may issue bonds or incur obligations that are either unsecured or secured by an interest in the Net Revenues that is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement. So long as the 2014 Bonds are Outstanding, the City may not issue or incur any additional bonds or other obligations having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the 2014 Installment Payments.

Application of Insurance or Eminent Domain Proceeds

The City covenants to maintain such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. The insurance may be obtained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or in the form of participation by the City in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Water System will be applied, at the City’s option, either to: (a) repair or rebuild such damaged or destroyed portion of the Water System, or (b) prepay the 2009 Installment Payments, the 2010 Installment Payment, the 2014 Installment Payments, or any other Parity Debt in accordance with the related Parity Debt Documents.

The City will also maintain worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Authority, the Trustee and the Owners of the 2014 Bonds.

If any substantial part of the Water System is sold or taken in eminent domain proceedings, the payment therefor shall either be: (a) used for the acquisition or construction of improvements to the Water System, or (b) applied at the election of the City to prepay the 2009 Installment Payments, the 2010 Installment Payment, the 2014 Installment Payments, or any other Parity Debt.

WATER SYSTEM

Organization and Management

The City provides water services to its residential, commercial and other customers through the Water System. The City Council establishes the rates and charges for the Water System. The City's Maintenance Services Department is responsible for the Water System's day-to-day operation and maintenance. The Public Works Director reports to the City Manager. The City's Administrative Services Department works closely with the City Manager and the director of each City department, including the Public Works Director, to prepare periodic revenue and expenditure reports, revenue projections and to make budget recommendations for all City departments and enterprises, including the Water System.

Tim O'Donnell, City Manager. Mr. O'Donnell was appointed City Manager of the City in July 2000. Before such appointment, he served as the City's Assistant City Manager for 10 years. Prior to working for the City, Mr. O'Donnell was the Assistant City Manager for the City of Signal Hill between 1983 and 1990. He also served the City of Garden Grove as Manager, Department of Human Resources, from 1979 to 1983, and the City of Bellflower from 1976 to 1979. Mr. O'Donnell holds a Bachelor of Arts degree from California State University, Los Angeles.

Bill Gallardo, Assistant City Manager/Administrative Services Director. Mr. Gallardo became the City's Assistant City Manager effective July 2014. He also serves as the City's Administrative Services Director. In May 2010, as part of a reorganization plan to streamline city operations, an Administrative Services Department was created that comprised of the former Financial Services Department, plus the Information Technology Division. As Administrative Services Director, Mr. Gallardo oversees the Administrative, Revenue, Accounting/Auditing and Purchasing Division, plus Information Technology, Human Resources and the City Clerk's Office. Previously, he was the City's Financial Services Manager–Revenue for 14 years and then the City's Financial Services Director beginning in August 2004. Mr. Gallardo served the City of Walnut from 1986 to 1990 as Administrative Assistant and Senior Management Assistant. He received a Bachelor of Science Degree from California Polytechnic State University, Pomona.

Lee Squire, Financial Services Manager – Accounting. Mr. Squire was appointed to his position with the City in December 1988. Previously, he served the City of South Gate from 1983 to 1988 as Accounting Manager and as Director of Finance. Prior to Mr. Squire's service

to South Gate, he worked at a public accounting firm. Mr. Squire received his Bachelor of Science Degree from California State University, Los Angeles.

Faith Madrazo, Revenue and Budget Manager. Ms. Madrazo was appointed to her position with the City in October 2010. She has worked for the City's Administrative Services Department for 14 years in various other capacities, including Management Analyst, Payroll, and Utility Billing. Prior to this, Ms. Madrazo worked for the City of Norwalk for more than five years. Ms. Madrazo received her Bachelor of Arts Degree in Business Administration with a Concentration in Accounting from California State University, Fullerton.

Eric Nicoll, Public Works Director. Mr. Nicoll was appointed as the City's Interim Public Works Director in January 2014, and then became the Public Works Director in July 2014. He previously served as the City's Economic Development Director. Mr. Nicoll also served as the City's Redevelopment Services Manager from June 1993 to March 2001. Before serving the City, Mr. Nicoll served as Housing Development Manager of the City of Anaheim between 1989 and 1993 and was Redevelopment Analyst for the City of Huntington Beach from 1985 to 1989. He holds a Bachelor of Arts degree from California State University, Fullerton.

Ron Krause, Water Distribution Superintendent. Mr. Krause was appointed as Water Distribution Superintendent in January 2005. Prior to this appointment, he held the position of Maintenance Services Water Distribution Supervisor. Mr. Krause has worked for the City's Water Division for over 24 years in various capacities, including Maintenance Worker/Meter Reader, Crew Leader, Supervisor and Superintendent. He holds a certificate in Water Utility Science and is a certified D5 Water Distribution Operator and a T2 Water Treatment Operator.

Service Area

The Water System's Service Area covers approximately 10.7 square miles and includes all of the territory within the City limits (other than approximately 80 residences served by the Yorba Linda Water District) and a portion of adjacent unincorporated county area.

Transmission, Distribution and Storage Facilities

Existing Facilities. Existing facilities of the Water System include over 162 miles of pipelines, six storage reservoirs, four booster pumping stations, 85 pressure reducing stations, two rate of flow control stations, three supply connections with MWD, three supply connections with CDWC and five emergency interconnections with neighboring agencies. The Water System's Service Area is comprised of 17 pressure zones, ranging in hydraulic grade from 515 feet to 1,400 feet.

The distribution pipelines range in size from six to 12 inches in diameter and comprise about 150 miles of the total 162 miles of pipelines owned and operated by the City. These pipelines are primarily made out of cast-iron, ductile iron or PVC materials, depending upon their age. The newer pipelines are ductile iron or PVC. The transmission pipelines range in size from 12 to 36 inches in diameter, and are labeled as high-pressure transmission mains because they deliver water at relatively high pressure from the MWD connections and the Berry Street High Pressure Pumps. Water enters the distribution system from these transmission mains through various pressure reducing stations and the Berry Street Booster Pumping Station. The

material for transmission mains is predominantly cement mortar-lined and coated steel pipe for the bigger pipes and ductile iron pipe for the smaller transmission pipes.

The City has six operating storage reservoirs with a combined storage capacity of 67.5 million gallons (“MG”): Berry Street (30 MG; built in 1976), Westside (15 MG; built in 1995), Eastside (10 MG; built in 1995), Valencia (10 MG; built in 1970) and Carbon Canyon (two reservoirs of 1.25 MG each; built in 2002). Each reservoir is supplied by one of the imported water connections with MWD or CDWC. Water is delivered by gravity from the reservoirs to the distribution system, with the exception of the Berry Street Reservoir. The water from the Berry Street Reservoir is pumped by the Berry Street Booster Pumping Station into the applicable pressure zones.

The City has four booster pumping stations (“BPS”) with a combined design capacity of approximately 14,800 gallons per minute (“gpm”): (i) the Berry Street BPS (built in 1976 and upgraded in 2008), (ii) the Puente Street BPS (built in 1968), (iii) Carbon Canyon BPS No. 2 (built in 1963), and (iv) Carbon Canyon BPS No. 3 (built in 1963). The Berry Street BPS, located in the western part of the City, has six vertical turbine booster pumps that pump to two different pressure zones. Two of the pumps are dual electric motor/natural gas engine, high-pressure booster pumps, with a capacity of approximately 2,000 gpm and 3,000 gpm, respectively. Three of the pumps are dual drive electric motor/natural gas engine, low-pressure pumps, with each having a capacity of approximately 1,500 gpm. The sixth pump is an electric driven low-pressure pump with a capacity of approximately 500 gpm. The Puente Street BPS, located at the northern terminus of the Puente Street, pumps water from a CDWC connection. The Puente Street BPS has two horizontal electric motor driven pumps, each having a capacity of approximately 650 gpm. Carbon Canyon BPS No. 2 and No. 3 make up the Carbon Canyon pumping system. Carbon Canyon BPS No. 2 pumps water into a pressure zone that serves the Olinda and Hollydale area. Carbon Canyon BPS No. 3 pumps water out of that same pressure zone to the Carbon Canyon Reservoir. Carbon Canyon BPS No. 2 must be on before Carbon Canyon BPS No. 3, which operates by pressure, will operate. Each of Carbon Canyon BPS No. 2 and No. 3 has two electric driven pumps with one normally operating and one used as a backup. Each of the four pumps has a capacity of approximately 650 gpm.

The City maintains 85 different pressure reducing stations. Each is designed with a three or four-inch pressure reducing valve for the low flow periods and a six or eight-inch pressure reducing valve to handle high flows. The pressure reducing stations are also equipped with a pressure relief valve connected to the downstream piping, or low-pressure side.

There are six supply connections to the Water System. Three are MWD supply connections. One of the MWD connections has been closed since 1996. Two of the MWD connections are connected to MWD’s 96-inch Lower Feeder. The R.B. Deiner Filtration Plant supplies MWD’s 96-inch Lower Feeder with filtered water from an overflow elevation of 810 feet. The other connection is tied to MWD’s 36-inch Orange County Feeder, which starts at the Orange County Reservoir and runs south through the City and into the City of Fullerton. The City receives water from CDWC through three metered connections. Each CDWC connection comes from one of two CDWC hydraulic lift systems. One of the connections is a gravity fed connection and receives water from CDWC’s Plant No. 6 Reservoir to fill the City’s Berry Street

Reservoir. The other two connections receive water from CDWC's Plant No. 6 Booster Pumping Station and the 2.5 MG reservoir located north of the City's limits.

The Water System also includes five emergency interconnections: two with the City of La Habra, one with the City of Fullerton, one with the Golden State California Water Company, and one with the Yorba Linda Water District.

Tonner Reservoir and Pump Station. In connection with the development of a master planned community, known as the Blackstone Planned Community (formerly, Tonner Hills Planned Community), the developer agreed to construct certain infrastructure and improvements, which are to be transferred to the City upon completion. This master planned community is currently expected to accommodate up to 795 residential units at built out. It is comprised of almost 800 acres of land located north of Lambert Road, west of Valencia Avenue and traversing west along Tonner Ridge, terminating just west of the State Highway 57.

Among the infrastructure and improvements that the developer agreed to build and transfer to the City are a water reservoir and a pump station. The reservoir, named Tonner Reservoir, will have a 2.0 MG water storage capacity. The pump station, named Tonner Pump Station, will have three pumps. One of the pumps will have 15 units of horsepower and a capacity of approximately 300 gpm. Each of the other two pumps will have 40 units of horsepower and a capacity of 900 gpm. The transfer of Tonner Reservoir and the Tonner Pump Station to the City is expected to be completed before the end of 2014.

Capital Improvement Projects. The City's Public Works Department has prepared a Seven Year Capital Improvement Program (the "CIP") for fiscal years 2013-14 through 2020-21. On June 17, 2014, the City Council adopted Resolution No. 2014-048, approving the budget for the fiscal year 2014-15 CIP projects. The CIP projects that are anticipated to be funded by the Water Utility Fund during fiscal years 2014-15 through 2020-21 include the following (collectively, the "CIP Water Projects"):

- Water line improvements for the Glenbrook Tract (located slightly east of Highway 57 and north of Highway 90), which will include rehabilitation of the pavement of residential streets, replacement of approximately 12,700 linear feet and existing undersized and deteriorated water mains in the northern part of the Glenbrook Tract, and replacement of gate valves, services, fire hydrants, pressure regulating stations and appurtenances;
- Replacement of existing waterlines and water mains at various other locations throughout the City;
- Replacement of two pump assemblies at the Carbon Canyon site;
- Construction of new enclosures for booster pump stations, Carbon Canyon BPS No. 2 and Carbon Canyon BPS No. 3 to protect water pump installations from intruders and weather elements, replacement of the two pump assemblies and installation of an emergency generator at Carbon Canyon BPS No. 2;

- Removal and replacement of existing coating on the interior of the Valencia Reservoir;
- Reconstruction of the existing asphalt access road from Valencia Avenue to the Valencia Reservoir and the new 830 Zone Reservoir; and
- Water main repairs, upgrades of existing facilities and appurtenances and other improvement projects, as they become necessary.

The approved budget for the fiscal year 2014-15 CIP Water Projects is \$484,250. The proposed budgets for the CIP Water Projects for fiscal years 2015-16 through 2020-21 range from approximately \$2.97 million to \$4.65 million per year. The actual budget for the CIP Water Projects for any given fiscal year will be reviewed and considered by the City Council before the start of such fiscal year. The City anticipates paying for the CIP Water Projects based on moneys available in the Water Utility Fund.

Water Supply

The City purchases essentially all of its water supplies from two agencies: MWDOC and CDWC. The water from the La Habra Basin, located directly beneath the City, would require extensive treatment to meet the State's public health standards. The one groundwater well owned by the City is used solely for irrigation purposes for a golf course and a park. In addition, the City has agreements with the City of La Habra, the City of Fullerton, Golden State Water Company and Yorba Linda Water District for the transfer of water in the event of emergency or other short-term need where such exchange will not harm the stable source of water for the providing party's customers.

The table below shows the volume of water received from MWDOC (which resells water from MWD) and CDWC from fiscal years 2009-10 through 2013-14, and the related costs.

Table 1
CITY OF BREA
Water System
Water Supply by Source
Fiscal Years 2009-10 through 2013-14

FY ended June 30	MWDOC				CDWC ⁽¹⁾			
	Supply (acre-feet)	% of Total Supply	Cost ⁽²⁾	Cost per acre-foot	Supply (acre-feet)	% of Total Supply	Cost ⁽²⁾	Cost per acre- foot ⁽³⁾
2009-10	2,732.50	27.63%	\$2,051,752	\$750.87	7,156.44	72.37%	\$3,377,625	\$471.97
2010-11	3,186.30	33.13	2,594,413	814.24	6,432.23	66.87	2,842,595	441.93
2011-12	2,811.90	27.55	2,461,172	875.27	7,394.42	72.45	3,397,292	459.44
2012-13	3,163.40	28.91	2,903,115	917.72	7,777.12	71.09	3,850,141	495.06
2013-14	3,459.10	30.00	3,324,541	961.10	8,071.72	70.00	4,114,156	509.70

- (1) Includes water received based on shares of CDWC stock owned by the City or leased by the City from other shareholders, as well as water purchased above entitlement. See “*California Domestic Water Company; Main San Gabriel Basin.*” The City has purchased CDWC shares in each of fiscal years 2010-11 through 2013-14. See “PLAN OF FINANCING – Acquisition of Additional Water Rights (CDWC Shares).”
- (2) Estimates based on the volume of water received from MWDOC and CDWC. May differ from the actual billed cost of purchased water shown on Table 16.
- (3) Represents the average cost of water purchased from CDWC. See footnote 1.

Source: City of Brea.

Metropolitan Water District of Orange County; Metropolitan Water District of Southern California

The following description of MWDOC and MWD are based on publicly available materials published by MWDOC and MWD. The City has not independently verified this information and makes no representation as to the accuracy thereof. Neither MWDOC nor MWD has reviewed the descriptions contained in this Official Statement. More information regarding MWDOC may be found at its website: www.mwdoc.com. More information regarding MWD may be found at its website: www.mwdh2o.com. These website references are included for informational purposes only. The City makes no representation concerning, and does not take any responsibility for, the accuracy or timeliness of information posted on such websites or the continued maintenance of such websites.

MWDOC was formed in 1951 and is a member of MWD. MWDOC’s service area covers all of Orange County, with the exception of the cities of Anaheim, Fullerton, and Santa Ana. MWDOC purchases all of its water from MWD for resale to MWDOC’s clients, which currently include 28 retail water agencies (comprising of municipal water districts and city water departments, such as the City’s Water System).

MWD was formed in 1928. MWD’s service area comprises approximately 5,200 square miles and includes all or portions of six southern California counties: Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. There are 26 member agencies consisting of 14 cities, 11 municipal water districts and one county water authority, which collectively, serve the residents and businesses of more than 300 cities and numerous unincorporated communities. Member agencies request water from MWD at various delivery points within MWD’s system.

MWD's charges for water sales and availability are fixed by its Board of Directors and are not subject to regulation by the California Public Utilities Commission or any other state or federal agency. MWD imports water from two principal sources: the Colorado River via the Colorado River Aqueduct owned by MWD and northern California via the Edmund G. Brown California Aqueduct of the State Water Project owned by the State of California and operated by the California Department of Water Resources ("DWR").

The water supply contract between MWD and DWR provides for a certain "contracted amount" of water supply each year, which does not represent the actual amount of amount that MWD receives, but refers to the amount of water that MWD may receive at 100 percent allocation for that year. Each November, DWR announces an initial allocation estimate, but may revise the estimate throughout the year as warranted by developing precipitation and water supply conditions. In large part due to on-going drought conditions (with calendar year 2013 being the driest year on record for much of the State and calendar year 2014 being projected to be even drier), the State's major reservoirs are at very low storage levels. See "Water Conservation and Supply Shortage Contingency; Current State Drought – *Current State Drought; Governor's Proclamation and Water Board's Emergency Regulations.*" In January 2014, the 2014 allocation estimate for MWD was set at zero percent. The allocation was adjusted slightly upward in April 2014 after some February and March storms, but only to five percent. During dry years, MWD augments deliveries using withdrawals from its storage programs and through water transfer and exchange programs (with public and private entities and individuals).

MWD has adopted a plan (the "Water Supply Allocation Plan") for allocation of water supplies in the event of shortage among MWD's member agencies. Under the Water Supply Allocation Plan, delivery to a member agency of more than its allocated amount of MWD supplies will subject the member agency to a penalty of one to four times of MWD's full service rate for untreated Tier 2 water, depending on how much the member agency's water use for the 12-month period beginning on July 1 exceeds its allocated amount. Any penalties collected may be rebated to the member agency that paid them to fund water management plans. Since the Water Supply Allocation Plan was approved in 2008, the MWD Board of Directors has made adjustments to allocation formula and implementation status of the Water Supply Allocation Plan from time to time based on the water supply status and review of the Water Supply Allocation Plan.

California Domestic Water Company; Main San Gabriel Basin

CDWC is a mutual water company and has adjudicated rights to a portion of the water in the Main San Gabriel Basin, located in eastern Los Angeles County. CDWC supplies groundwater from the Main San Gabriel Basin to its shareholders.

As the result of a complaint filed in 1970 in the Superior Court of the State of California for the County of Los Angeles (Case No. 924128, *Upper San Gabriel Valley Municipal Water District, Plaintiff, vs. City of Alhambra, et al., Defendants*), a stipulated judgment was entered in 1973, defining the water rights to the numerous litigant parties. The stipulated judgment, which has been amended several times, is referred to below as the "Judgment." A nine-member board, called the "Watermaster," was created to administer the Judgment. Six members of the

Watermaster are nominated by the water producers who have rights to the basin (such as CDWC). The Upper San Gabriel Valley Municipal Water District nominates two members. The San Gabriel Valley Municipal Water District nominates the remaining member. Each year, the Watermaster establishes an “Operating Safe Yield” for the Main San Gabriel Basin, which is used to make allocations to the parties with adjudicated rights to the water. The Judgment does not prohibit a party from extracting more than its allotment each year. However, all water production from the basin is metered. If a party extracts water in excess of its allotment, then the party must pay an assessment for the replacement water (in the amount sufficient to purchase one acre-foot of supplemental water to be spread in the basin for each acre-foot of excess production). Water rights under the Judgment are transferable by lease or purchase so long as the transfers meet the requirements of the Judgment. CDWC and its wholly owned subsidiary, Cadway, Inc., together, are entitled to approximately 6.43 percent of the total pumping rights to the Main San Gabriel Basin each year.

The Main San Gabriel Basin Watermaster has the court-granted authority to control pumping for water quality purposes. Each year by November 1, the Watermaster makes available to the public its annual update to the Five Year Water Quality and Supply Plan, with the objective of coordinating groundwater-related activities to protect and improve both water supply and water quality in the Main San Gabriel Basin. According to the Watermaster’s rules and regulations, all water producers, including CDWC must submit an application to construct, modify or destroy a well or construct a treatment facility. The Watermaster then prepares a report on the implication of the proposed activity.

The amount of water that CDWC is entitled is adjusted annually depending on the Operating Safe Yield established by the Watermaster.

Table 2
Main San Gabriel Basin Water Entitlement
and CDWC Entitlement and Extraction in Excess of Entitlement
(volume by acre-feet)
Fiscal Years 2009-10 through 2014-15

Fiscal Year Ended June 30	Main San Gabriel Basin Operating Safe Yield	CDWC Entitlement Per Judgment	CDWC’s Extraction from Basin above Entitlement
2010	170,000	10,382	10,359
2011	170,000	10,382	5,567
2012	210,000	12,825	5,482
2013	200,000	12,214	6,877
2014	180,000	10,993	9,007 ⁽¹⁾
2015	150,000	9,160	N/A

(1) Estimated.

Source: City of Brea, based on information from California Domestic Water Company.

CDWC’s Articles of Incorporation authorize the issuance of up to 10,000 shares of common stock (of which 7,877.5 shares have been issued and are outstanding as of July 15, 2014), and 10,000 shares of Class A preferred stock (of which 3,127.15 have been issued and are outstanding as of July 15, 2014). CDWC Class A preferred stocks do not provide its holders any voting rights, but each share of Class A preferred stock entitles its holder to one-acre-foot of water per year (provided, that such entitlement may be reduced in the event of a court order governing the applicable groundwater aquifer, as provided in the CDWC’s corporate documents). In contrast, the annual allotment for each share of CDWC common stock varies based on CDWC’s total allotment for that year and the number of shares then outstanding.

CDWC has four major shareholders: the City, the City of La Habra, Suburban Water Systems (an investor-owned utility company) and Union Oil Company of California (a subsidiary of Chevron Corporation). After the City’s recent purchase of additional CDWC stock in May 2014, the City now owns 1,811.5 shares of common stock and 2,190.55 shares of Class A preferred stock. See “PLAN OF FINANCING.” The table below shows the current ownership of CDWC common and preferred stock:

**Table 3
CDWC Stock Ownership
as of July 15, 2014**

Shareholder	Common Shares		Class A Preferred Shares	
	Number of Shares	% of Total Shares	Number of Shares	% of Total Shares
Suburban Water	2,593.75	32.97%	23.75	0.76%
City of La Habra	2,330.25	29.62	912.85	29.19
City of Brea	1,811.50	23.02	2,190.55	70.05
Chevron	346.00	4.40	--	--
Others	786.50	10.00	--	--
Total:	7,868.00	100.00%	3,127.15	100.00%

Source: City of Brea, based on information from California Domestic Water Company.

CDWC supplies its common stock shareholders with water up to their annual allotment at prices determined to be sufficient to cover CDWC’s costs for operation and maintenance. To the extent that supply was available, CDWC has also allowed its shareholders to pump in excess beyond their annual entitlement with a fee to cover the cost for basin replenishment. Generally, such basin replenishment would be in the form of water purchases from the MWD. A CDWC shareholder may also lease shares from other shareholders, at a mutually agreed-upon price. The City has from time to time leased shares from other CDWC shareholders.

CDWC estimates that approximately 39 percent of CDWC’s total water sale in fiscal year 2013-14 was sold to the City. The cost per acre-foot to the City for CDWC water purchases in fiscal year 2013-14, based on CDWC’s calculations, are as follows:

Table 4
CITY OF BREA
Water System
Cost of CDWC Water Purchase Per Acre-foot⁽¹⁾
Fiscal Years 2013-14

<u>Category of purchase</u>	<u>Cost per Acre-foot</u>
Common stock entitlement ⁽¹⁾	\$302
Class A Preferred Stock delivery ⁽²⁾	126
Purchases above stock entitlement ⁽³⁾	732

(1) Applicable to common shares owned by the City and also common shares leased by the City. Does not include any additional amount paid by the City directly to other shareholders for the leasing of shares. Cost calculated to include CDWC's operation and maintenance costs, with no additional fee or assessment required.

(2) Does not include additional fee to the Watermaster (\$35 per acre-foot) and water quality assessment (\$10 per acre-foot).

(3) Calculated to cover cost to CDWC for purchase of water to replenish the groundwater basin. Does not include water quality assessment (\$10 per acre-foot).

Source: City of Brea, based on information from California Domestic Water Company.

Table 5
CITY OF BREA
Water System
Brea's Water Entitlement Based on CDWC Stock
and Additional Purchases from CDWC
(volume by acre-feet)
Fiscal Years 2009-10 through 2013-14

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Entitlement Per</u> <u>CDWC</u> <u>Common</u> <u>Shares Owned</u> <u>by Brea</u>	<u>Entitlement Per</u> <u>CDWC</u> <u>Common</u> <u>Shares Leased</u> <u>by Brea</u>	<u>Entitlement Per</u> <u>CDWC Class A</u> <u>Preferred</u> <u>Shares Owned</u> <u>by Brea</u>	<u>Brea's</u> <u>Additional</u> <u>Purchase above</u> <u>Entitlement</u>	<u>Total</u>
2010	1,879	405	0	4,873	7,157
2011	2,402	395	0	3,635	6,432
2012	2,899	393	705	3,397	7,394
2013	2,899	393	696	3,789	7,777
2014 ⁽¹⁾	2,808	348	831	4,085	8,072

(1) Estimated.

Source: City of Brea, based on information from California Domestic Water Company.

Rates and Charges

The City recovers the cost of Water System operation, maintenance and capital improvements through a user fee system. The components of the user fees currently imposed by the City include: (i) service charges (comprised of a fixed charge component based on meter size and a commodity charge component that varies based on type of use and usage volume) (together, the "Service Charges"), (ii) connection charges, and (iii) other miscellaneous fees and

charges (“Miscellaneous Charges”). The City may also, from time to time, undertake proceedings to impose special assessments or special taxes upon real property to finance expansion and improvements to the Water System. Under the Installment Sale Agreement, none of the City’s receipts from such special assessment or special taxes are pledged for the 2014 Installment Payments. Receipts from connection charges are also excluded from the pledge for 2014 Installment Payments. The Miscellaneous Charges, including fees and charges relating to delinquencies, do not exceed the administrative costs incurred, as determined by the City. In light of the foregoing, the tables below show only the City’s revenues from the Service Charges (the “Service Charge Revenues”).”

Current Service Charge Rate Schedule.

On May 1, 2012, the City Council adopted Resolution No. 2012-031 (the “2012 Water Rate Resolution”), setting forth the rates for the City’s Service Charges, effective as of July 1, 2012. Pursuant to the 2012 Water Rate Resolution, the rates for fixed (“ready to serve”) charges are to increase automatically, without further City Council action, by: (i) five percent on July 1, 2013, (ii) five percent on July 2014, (iii) three percent on July 1, 2015, and (iv) on each of July 1, 2016 and July 1, 2017, the equivalent of the percentage change of the Consumer Price Index - All Consumers for the Los Angeles/Riverside/Orange County Area for the 12 months ending during January of the then current year. The City provides discounts to eligible low-income residential customers (“Lifeline Customers”). By monthly average during the 12-months ending June 30, 2014, Lifeline Customers represented approximately 4.18 percent of the total single-family residential accounts.

The following table summarizes the current rates for the City’s Service Charges, which became effective as of July 1, 2014.

**Table 6
CITY OF BREA
Water System
Service Charges as of July 1, 2014**

Within City limits:

Fixed (“ready to serve”) charge

Meter size:	5/8 inch, 3/4 inch and 1 inch*	\$9.38
	1-1/2 inch	\$41.74
	2 inches	\$71.38
	3 inches	\$156.09
	4 inches	\$274.66
	6 inches	\$613.41
	8 inches	\$1,087.68
	10 inches	\$1,697.46
	12 inches	\$2,374.98

* Lifeline customers eligible for 20 percent discount

Commodity Charge (1 unit = 100 cubic feet)

Residential - single family and multifamily (non-Lifeline Customers):		
	1 unit – 10 units	\$2.71 per unit
	11 units – 20 units	\$3.81 per unit
	21 units – 30 units	\$4.84 per unit
	More than 30 units	\$6.17 per unit
Lifeline Customers:		
	1 unit – 10 units	\$2.16 per unit
		\$3.05 per unit
	21 units – 30 units	\$4.84 per unit
	More than 30 units	\$6.17 per unit
	Commercial or industrial, governmental agencies (other than the City), churches (“Non-residential Rate” or “NR rate”)	\$3.41 per unit
	Irrigation ⁽¹⁾	\$3.41 per unit
	Construction – authorized temporary service	150% of NR Rate

Outside City limits:

Fixed (“ready to serve”) charge	125% of charges applicable to customers within City limits
Commodity charge	125% of the NR Rate

(1) Does not apply to the Brea Municipal Golf Course, which has a separate contract with the City.

Source: City of Brea.

The preceding describes the City’s current Service Charges, as established by the 2012 Water Rate Resolution. The City will adopt new schedules of rates, fees and charges from time to time, based on its review of revenues and expenditures. See “SECURITY FOR THE 2014 BONDS – Rate Covenants” and “CONSTITUTIONAL LIMITATIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES – Proposition 218: Article XIII C and Article XIII D.”

Historical Average Total Monthly Charge of Typical Customer. For illustrative purposes only, the following table shows the monthly charges for a typical single family residential unit (with an one-inch meter and 1,600 cubic feet usage per month) for fiscal years 2009-10 through 2013-14:

Table 7
CITY OF BREA
Water System
Monthly Charges Paid by a Typical Single Family Residence
(one-inch meter and 1,600 cubic feet usage)
for Fiscal Years 2009-10 through 2013-14

Fiscal Year Ended June 30	Fixed Charge Based on one- inch meter size	Commodity Charge Based on 1,600 cu ft usage	Total Monthly Charges	Total Charge Percentage Change vs. Prior Fiscal Year
2010	\$5.88	40.36	\$46.24	2.66%
2011	6.17	43.26	49.43	6.90
2012	8.68	41.14 ⁽¹⁾	49.82	0.79
2013	9.11	46.12	55.23	10.86
2014	9.38	49.96	59.34	7.44

(1) Decrease from prior fiscal year due to change in rate structure which resulted in an increase for certain customer types and a decrease for others.

Source: City of Brea.

Comparative Rates. The following table compares the current water service charge imposed by the City for a typical single-family residential unit (with a one-inch meter and 1,600 cubic feet usage per month) and those of certain communities in the surrounding area:

Table 8
CITY OF BREA
Water System
Comparative Service Charges
(Based on a Typical Single Family Residence, one-inch meter and 1,600 cubic feet usage)
as of July 8, 2014

<u>Community</u>	<u>Monthly Usage Charge</u>
Moulton Niguel	\$ 33.40
Fullerton	\$ 44.60
Santa Margarita	\$ 46.83
El Toro Water District ⁽¹⁾	\$ 53.65
<i>Brea</i>	<i>\$ 59.34</i>
Yorba Linda	\$ 59.97
La Habra	\$ 60.08
San Clemente ⁽²⁾	\$ 66.49
Newport Beach	\$ 78.07
Mesa Consolidated	\$ 78.32
Placentia	\$ 91.64
Laguna Beach	\$ 95.10
South Coast Water District	\$ 107.63

(1) Based on indoor rates.

(2) Based on winter rates.

Source: City of Brea, based on publicly available information published or posted by each listed entity as of July 8, 2014.

Bill and Collection Procedures

Generally, the City sends the bills to its customers for water service and usage on the last working day of each month. All water bills are due and payable on the 20th day of the month following the mailing. If a customer fails to pay the water bill in full when due, the bill is deemed delinquent and a delinquent service charge is added. The delinquent charge is currently 10 percent of the outstanding balance of the bill \$10 and over, with the minimum charge being \$1.00 and the maximum charge being \$25.00. If a customer fails to pay the bill in full no later than 16 days following the date of delinquency, the City may, after complying with State law on discontinuance of utility service for non-payment, discontinue water service and not recommence providing water service to such a user until all previous water charges, delinquent service charges, customer deposit and disconnection/reconnection service charges are paid in full.

The following table sets forth the uncollectible water revenues for the fiscal years shown.

Table 9
CITY OF BREA
Water System
Uncollectible Water Revenues
Fiscal Years 2009-10 through 2013-14

Fiscal Year Ended June 30	Uncollectible Water Revenues ⁽¹⁾	Gross Water Billings	Percent of Gross Billings
2010	\$11,110	\$11,071,023	0.10%
2011	16,319	11,247,206	0.15
2012	12,254	12,713,447	0.10
2013	12,750	14,778,353	0.09
2014 ⁽²⁾	18,438	17,022,650	0.11

(1) Includes water charges, delinquent charges, hang tag fees, returned check fees, and reconnection fees.

(2) Based on unaudited figures.

Source: City of Brea.

Customer Accounts, Revenues and Consumption

The tables in this section summarize certain information regarding the Water System’s number of customer accounts, volume of water consumption and revenues from Service Charges.

As shown in below, the total customer usage volume decreased in each of fiscal years 2009-10 and 2010-11. The City has not conducted any formal study regarding the reason for such decreases. The City believes that a possible explanation could be the implementation of the City’s water conservation program beginning in 2009 (see “Water Conservation and Supply Shortage Contingency; Current State Drought – *Water Conservation and Water Supply Shortage Program*”), coupled with a downturn in the general economy around that time. The City’s total Service Charge Revenues did not decrease between fiscal years 2009-10 and 2010-11. See Tables 15 and 16 under “WATER SYSTEM FINANCIAL INFORMATION.” The City believes that the volume decrease between fiscal years 2009-10 and 2010-11 was possibly compensated by the rate increase that went into effect during the same period.

In contrast, the total customer usage volume increased in fiscal years 2011-12, 2012-13 and 2013-14. Service Charge Revenues also grew during these years. The growth in volume and revenues coincided with a more rapid increase in the number of accounts because of new developments and a recovering economy in the Service Area. The City cannot guarantee that this trend will continue and, if it does, that the increase will continue at the present rate. For example, if the current drought in the State persists, the implementation of water conservation measures will affect the usage volume and could also impact revenues to the Water System, unless there is a compensating increase in the number of customer accounts or in Service Charge rates (or a combination of both). See “Water Conservation and Supply Shortage Contingency; Current State Drought.” See also discussion immediately preceding Table 17 under “WATER SYSTEM FINANCIAL INFORMATION – Debt Service Coverage.”

The following two tables show the total usage volume and number of accounts by each customer class served by the Water System for the fiscal years shown.

Table 10
CITY OF BREa
Water System
Usage Volume (in Acre-Feet) by Customer Type
Fiscal Years 2009-10 through 2013-14

Customer Type	2009-10		2010-11		2011-12		2012-13		2013-14	
	Volume	% Change	Volume	% Change	Volume	% Change	Volume	% Change	Volume	% Change
Residential										
Single family	4,046	-9.33%	3,904	-3.53%	4,078	4.48%	4,207	3.15%	4,375	3.99%
Multifamily	989	0.45	1,010	2.11	1,010	0.04	1,037	2.59	1,075	3.70
Commercial	1,362	-9.65	1,384	1.62	1,402	1.28	1,435	2.39	1,470	2.44
Industrial	600	-13.57	610	1.77	613	0.43	772	25.89	843	9.29
Public agencies ⁽¹⁾	921	-7.27	816	-11.45	920	12.81	1,035	12.51	1,137	8.91
Irrigation ⁽²⁾	1,054	-27.28	987	-6.37	1,199	21.57	1,225	2.14	1,582	29.16
Other ⁽³⁾	270	463.70	307	13.73	260	-15.38	346	32.95	278	-19.68
Total⁽⁴⁾	9,243	-8.84%	9,018	-2.43%	9,483	5.16%	10,056	6.04%	10,760	6.99%

(1) Includes all City accounts. See footnote 3 to Table 12.

(2) Includes private property greenbelt areas (such as homeowners association common areas), golf courses and agricultural use within the Service Area.

(3) Includes fire and temporary construction meters.

(4) Total may not equal sum due to rounding.

Source: City of Brea.

Table 11
CITY OF BREa
Water System
Number of Accounts by Customer Type⁽¹⁾
Fiscal Years 2009-10 through 2013-14

Customer Type	2009-10		2010-11		2011-12		2012-13		2013-14	
	No. of Accounts	% Change	No. of Accounts	% Change	No. of Accounts	% Change	No. of Accounts	% Change	No. of Accounts	% Change
Residential										
Single family	9,789	0.03%	9,793	0.04%	9,971	1.82%	10,102	1.31%	10,466	3.60%
Multifamily ⁽²⁾	179	0.00%	180	0.56%	188	4.44%	189	0.53%	191	1.06
Commercial	702	2.18%	693	-1.28%	692	-0.14%	690	-0.29%	687	-0.43
Industrial	268	0.00%	268	0.00%	268	0.00%	269	0.37%	266	-1.12
Public agencies ⁽³⁾	198	-1.98%	197	-0.51%	197	0.00%	201	2.03%	203	1.00
Irrigation ⁽⁴⁾	290	1.40%	292	0.69%	321	9.93%	330	2.80%	354	7.27
Other ⁽⁵⁾	445	-2.20%	455	2.25%	448	-1.54%	545	21.65%	561	2.94
Total⁽⁶⁾	11,871	0.07%	11,878	0.06%	12,085	1.74%	12,326	1.99%	12,728	3.26%

(1) Based on meter count.

(2) Generally, one account for each multifamily complex. However, a large complex may have several meters or accounts.

(3) Includes all City accounts. See footnote 3 to Table 12.

(4) Includes private property greenbelt areas (such as homeowners association common areas), golf courses and agricultural use within the Service Area.

(5) Includes fire and temporary construction meters.

(6) Total may not equal sum due to rounding.

Source: City of Brea.

The following table shows the fiscal year 2013-14 Service Charge Revenues by each customer class.

Table 12
CITY OF BREA
Water System
Service Charge Revenues by Customer Type⁽¹⁾
Fiscal Year 2013-14

Customer Type	Service Charge Revenues	Percentage of Total Service Charge Revenues ⁽²⁾
Residential		
Single family	\$ 7,425,280	43.62%
Multifamily	1,634,174	9.60
Commercial	2,393,385	14.06
Industrial	1,431,605	8.41
Public agencies ⁽³⁾	1,118,388	6.57
Irrigation ⁽⁴⁾	2,595,954	15.25
Other ⁽⁵⁾	423,864	2.48
Total	\$17,022,650	100.00%

(1) Unaudited. Reflects billed amounts. See “Rates and Charges” and “SECURITY FOR THE 2014 BONDS – Pledge of Net Revenues; Water Utility Fund – Certain Definitions.”

(2) Equals “Service Charge Revenues” for the category divided by \$17,022,650, the unaudited total fiscal year 2013-14 Service Charge Revenues for all categories.

(3) Includes City accounts. Service charges are collected on certain city accounts, such as those attributable to lighting and landscape districts.

(4) Includes private property greenbelt areas (such as homeowners association common areas), golf courses and agricultural use within the Service Area..

(5) Includes fire and temporary construction meters.

Source: City of Brea.

The following table summarizes the Service Charge Revenues from the top ten customers (by usage volume) of the Water System.

Table 13
CITY OF BREA
Water System
Top Ten Customers (by Service Charge Revenues)
Fiscal Year 2013-14

Customer	Description	12-month Usage Volume (100 cubic feet)	% of Total Usage Volume ⁽¹⁾	12-month Service Charge Revenues	% of Total Service Charge Revenues ⁽²⁾
Orange County Parks Department	Parks	153,460	3.27%	\$ 451,271	2.73%
Brea Olinda School District	Schools	69,863	1.49	231,757	1.40
Brea Olinda Master Community	Homeowners Association	61,705	1.32	188,764	1.14
Raintree Apartments	Apartments	52,123	1.11	165,707	1.00
Lake Park Brea	Mobile Home Park	51,745	1.10	156,687	0.95
Bank of America	Office Building	47,455	1.01	165,082	1.00
Brea Mall	Shopping Mall	45,023	0.96	141,011	0.85
Winonics (Brea)	Manufacturing Co.	41,388	0.88	122,920	0.74
Crestmont Mobile Estates	Mobile Home Park	38,229	0.82	127,395	0.77
County of Orange	Landfill	37,893	0.81	543,715	3.29
Total ⁽³⁾		598,884	12.78%	\$2,294,305	13.87%

(1) Total usage volume by all customers for fiscal year 2013-14: 4,686,873,000 cubic feet (or 10,760 acre-feet). See Table 10.

(2) Unaudited total Service Charge Revenues from all customers for fiscal year 2013-14: \$17,022,650. See Table 16.

(3) Total may not equal to sum due to rounding.

Source: City of Brea.

The following table summarizes the total Service Charge Revenues for the Water System for the fiscal years shown.

Table 14
CITY OF BREA
Water System
Water Service Charge Revenues⁽¹⁾
Fiscal Years 2009-10 through 2013-14

Fiscal Year Ended June 30	Service Charge Revenues
2010	\$11,071,023
2011	11,247,206
2012	12,713,447
2013	14,778,353
2014 ⁽²⁾	17,022,650

(1) Service Charge Revenues reflect billed amounts. See “Rates and Charges.” Dollar amounts are consistent with those shown in Table 16, under “Operating Revenues – Charges for services.”

(2) Unaudited.

Source: City of Brea audited financial statements for fiscal years 2009-10 through 2012-13. City of Brea Administrative Services Department for fiscal year 2013-14 unaudited information.

Water Conservation and Supply Shortage Contingency; Current State Drought

SBx7-7. The State Legislature enacted State Senate Bill x7-7, the Water Conservation Act of 2009 (“SBx7-7”), which became effective in February 2010. Among other things, SBx7-7 seeks to achieve a State-wide 20 percent reduction in urban per capita water use by December 31, 2020. SBx7-7 requires each urban retail water supplier (such as the City) to develop urban water use targets to help meet the 20 percent reduction goal by 2020, with an interim 10 percent reduction goal by 2015. The retail agency may choose one of four target setting methods to comply with the reduction requirements. Of the methods available, the City has chosen the simple method of establishing a baseline (based on gallons per capita per day, or “GPCD”), and then setting a 10 percent reduction target by 2015 and a 20 percent reduction target by 2020:

Baseline	2015 Target	2020 Target
274.5	247.0	219.6

Coinciding with the City’s water conservation efforts (see “*Water Conservation and Water Supply Shortage and Water Supply Shortage Program*” below), the per capita water use in the City dropped from approximately 268 GPCD in fiscal year 2006-07 to 212.56 GPCD in fiscal year 2010-11. However, since fiscal year 2010-11, the per capita water use in the City has been increasing. For fiscal year 2013-14, the per capita water use in the City is estimated to be 242.80 GPCD, below the 2015 Target of 247.0 GPCD. The City is considering possible measures to meet the 2020 Target of 219.6 GPCD.

Under SBx7-7, a retail water agency may comply with the reduction requirements as an individual or as part of a regional alliance. The advantage of becoming part of a regional alliance is that the agency then has multiple means of meeting the compliance requirements. The City is member of Orange County 20x2020 Regional Alliance formed by MWOC (the “Regional Alliance”). The Regional Alliance is comprised of 29 retail agencies throughout the County. The Regional Alliance has a 2015 weighted target of 174 GPCD and a 2020 weighted target of 157 GPCD.

Water Conservation and Water Supply Shortage Program. The City has taken affirmative steps with respect to its water conservation efforts. As a member of MWDOC, the City cooperates with MWDOC with respect to many of the MWDOC’s conservation programs and outreach efforts, including rebate and other incentive programs, audit programs and public information programs. The City’s current Water Conservation and Water Supply Shortage Program (the “Program”) was put in place pursuant to Ordinance No. 1123, adopted by the City Council on June 2, 2009. The Program establishes certain permanent conservation requirements, including among others: limitations on the time and duration of lawn and landscape irrigation, mandatory recirculation of water for fountains, prohibition on installation of single pass cooling systems. As summarized in the following page, the Program also establishes four response phases in the event of water supply shortage.

Phase No.	Water Supply Condition	Sample Measures (illustrative only; not exhaustive summary)
1	City notifies water users that due to drought or other supply reductions, a customer demand reduction of up to <u>10 percent</u> is necessary	<ul style="list-style-type: none"> • Limits on watering or irrigation of lawn, landscape or other vegetation area • User obligations to fix leaks, breaks or other malfunctions in user’s plumbing or distribution system within 72 hours upon City notification
2	City notifies water users that due to drought or other supply reductions, a customer demand reduction of up to <u>20 percent</u> is necessary	<p>In addition, to the measures for Phase 1:</p> <ul style="list-style-type: none"> • Implementation reduced water allocations using current tiered water rate structure • Limits on filling ornamental lakes or ponds • Limits on washing vehicles • Limits on filling residential swimming pools and spas
3	City declares a water shortage emergency pursuant to California Water Code Section 350 and provides notification that up to <u>30 percent</u> consumer demand reduction is required	<p>In addition, to the measures for Phases 1 and 2:</p> <ul style="list-style-type: none"> • No watering or irrigating of lawn, landscape or other vegetation area • Obligations to fix leaks, breaks or other malfunctions within 24 hours upon City notification • No new potable water service except in limited circumstances • At City’s discretion, discontinuation of service to a violating customer
4	City declares a water shortage emergency pursuant to California Water Code Section 350 and provides notification that up to <u>40 percent</u> consumer demand reduction is required	<p>In addition, to the measures for Phases 1, 2 and 3:</p> <ul style="list-style-type: none"> • Reduce water allocation in all categories to meet available water supply • Shut-off of all non-essential water uses

Current State Drought; Governor’s Proclamation and Water Board’s Emergency Regulations. The State is currently suffering from a severe drought period. The rainfall total in calendar year 2012 was below average. Calendar year 2013 closed as the driest on record for most of the State. The dry condition persisted through the first half of 2014 and is projected to continue through the rest of the calendar year. In light of the State’s severe drought, Governor Edmund G. Brown Jr. issued a Proclamation of a State of Emergency on January 17, 2014 and then a Proclamation of a Continued State of Emergency on April 25, 2014 (together, the “2014 Drought Proclamation”). As part of the 2014 Proclamation, the Governor ordered certain measures for the State to manage in light of the water shortage. The Governor’s orders in the 2014 Drought Proclamation include the following, among others:

- Local urban water suppliers and municipalities are called upon to implement their local water shortage contingency plans immediately in order to avoid or forestall outright restrictions that could become necessary later in the drought season.

Local water agencies should also update their legally required urban and agricultural water management plans, which help plan for extended drought conditions. The State Department of Water Resources will make the status of these updates publicly available.

- State agencies, led by the State Department of General Services, are to implement water use reduction plans for all state facilities. These plans shall include immediate water conservation actions, and a moratorium will be placed on new, non-essential landscaping projects at state facilities and on state highways and roads.
- The State Water Resources Control Board (the “Water Board”) is to immediately consider petitions requesting consolidation of the places of use of the State Water Project and Federal Central Valley Project, which would streamline water transfers and exchanges between water users within the areas of these two major water projects.
- The Water Board is to put water right holders throughout the state on notice that they may be directed to cease or reduce water diversions based on water shortages.
- The Department of Water Resources and the Water Board are to immediately and expeditiously process requests to move water to areas of need, including requests involving voluntary water transfers, forbearance agreements, water exchanges, or other means. If necessary, the Department of Water Resources will request that the Water Board consider changes to water right permits to enable such voluntary movements of water.
- Recognizing the tremendous importance of conserving water during this drought, all California residents should refrain from wasting water:
 - (a) Avoid using water to clean sidewalks, driveways, parking lots and other hardscapes.
 - (b) Turn off fountains and other decorative water features unless recycled or grey water is available.
 - (c) Limit vehicle washing at home by patronizing local carwashes that use recycled water.
 - (d) Limit outdoor watering of lawns and landscaping to no more than two times a week.
 - (e) In addition:
 - Recreational facilities, such as city parks and golf courses, and large institutional complexes, such as schools, business parks and

campuses, should immediately implement water reduction plans to reduce the use of potable water for outdoor irrigation.

- Commercial establishments such as hotel and restaurants should take steps to reduce water usage and increase public awareness of the drought through measures such as offering drinking water only upon request and providing customers with options to avoid daily washing of towels or sheets.
- Professional sports facilities, such as basketball arenas, football, soccer, and baseball stadiums, and hockey rinks should reduce water usage and increase public awareness of the drought by reducing the use of potable water for outdoor irrigation and encouraging conservation by spectators.
- The Water Board shall direct urban water suppliers that are not already implementing drought response plans to limit outdoor irrigation and other wasteful water practices.
- All state agencies that distribute funding for projects that impact water resources, including groundwater resources, will require recipients of future financial assistance to have appropriate conservation and efficiency programs in place.
- The Department of Water Resources will expedite the consideration and, where appropriate, the implementation, of pump-back delivery of water through the State Water Project on behalf of water districts.
- The Department of Water Resources and the Water Board, in coordination with other state agencies, will provide appropriate assistance to public agencies or private water companies in establishing temporary water supply connections to mitigate effects of the drought.

Consistent with the order set forth in the Governor's 2014 Drought Proclamation, the Water Board adopted temporary emergency regulations (the "2014 Drought Regulations") in July 2014, with the intent to mandate certain water conservation measures. The 2014 Drought Regulations became effective on July 28, 2014, upon approval by State Office of Administrative Law. The 2014 Drought Regulations will remain in effect for 270 days unless the Water Board takes action to rescind them or renew them for an additional 270 days.

The 2014 Drought Regulations prohibit any private person or business from doing the following (except where necessary to address an immediate health and safety need or to comply with a term or condition in a permit issued by a state or federal agency):

- Applying potable water to outdoor landscaping in a manner that causes runoff onto adjacent properties, non-irrigated areas, sidewalks, roads, parking lots, or other structures;

- Washing a car without affixing a shut-off nozzle or other device to the hose in order to prevent discharge when the hose is not in use;
- Applying potable water to driveways and sidewalks; and
- Using potable water in a fountain or other decorative water feature where the water is not re-circulated through the system.

A fine may be imposed against violators of up to \$500 per day for each day a violation of any of the prohibitions occurs.

The 2014 Drought Regulations also require each urban water supplier to: (i) implement those requirements of such supplier's water shortage contingency plan that restrict outdoor irrigation of ornamental landscapes or turf with potable water, or (ii) adopt an equivalent alternative plan with approval of the Water Board. An "urban water supplier" is defined as a water supplier which serves more 3,000 individuals or supplies more than 3,000 acre-feet of potable water per year, which would include the City. Under the 2014 Drought Regulations, an urban water supplier is further required to prepare and submit to the Water Board monthly monitoring reports which document the amount of water produced each month as compared to the production level of the prior year. An urban water supplier which fails to implement these requirements may be subject to a fine of \$10,000 per day imposed by the State Water Board (but only after the Water Board fulfills certain precedent procedural requirements).

Because the 2014 Drought Regulations are newly adopted (as of the time of the printing of this Official Statement), there are still certain open issues regarding the details of implementation. For example, the 2014 Drought Regulations do not specify which agencies (or departments within agencies) will have the authority or responsibility to enforce the penalty against an individual or business which violates one of the enumerated prohibitions. The City is studying the provisions of the 2014 Drought Regulations in order to determine the necessary steps to comply with the requirements. Such steps may include the institution of Phase 1 or Phase 2 of the Program (described under "Water Conservation and Water Supply Shortage Program" above).

Additional Regulatory Requirements

The applicable drinking water standards for the Water System are contained in the California Domestic Water Quality and Monitoring Regulations, Title 22 of the California Administrative Code. These regulations incorporate the requirements of the EPA in conformance with the federal Safe Drinking Water Act. The standards specify water quality sampling frequencies and locations as well as maximum concentrations of chemical constituents. They are continuously being revised and amended.

The City does not operate water resource facilities such as water intakes from surface water or water treatment plants from groundwater. The City routinely monitors the water supplied by MWD and CDWC and imported into the Water System. The City believes that the quality of the drinking water provided by the Water System to its customers meets all California Department of Public Health and EPA drinking water standards set to protect public health.

Insurance

Insurance with respect to the Water System is covered under the City's general policies. The City is a member of the California Insurance Pool Authority ("CIPA"), a joint powers authority formed under the laws of the State. CIPA currently has 12 members, consisting of cities in the Southern California region. CIPA's governing board is comprised of one member from each participating city and is responsible for the selection of management and for the budgeting and financial management of CIPA.

As of the date of this Official Statement, the City is self-insured for workers' compensation, general liability and auto liability insurance. Coverage is provided for individual workers' compensation claims and general auto liability claims in excess of \$500,000 and \$250,000, respectively. The coverage for general and auto liability extends to \$20 million per occurrence with a \$20 million annual pooled aggregate. CIPA member agencies may be assessed the difference between funds available and the \$20 million annual pooled aggregate in proportion to their annual premium.

WATER SYSTEM FINANCIAL INFORMATION

Financial Statements

Set forth in the following tables are Statements of Net Assets and Statements of Revenues, Expenses and Changes in Fund Net Assets with respect to the Water Utility Fund based on the City's audited financial statements for fiscal years 2009-10 through 2012-13 and the City Administrative Services Department's compilation of unaudited figures for fiscal year 2013-14. Such statements are subject to various notes attached to the City's financial statements for the respective years and the footnotes below the respective tables. Excerpts of the City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2013, which includes the City's fiscal year 2012-13 audited financial statements and the Independent Auditor's Report issued by Lance Soll & Lunghard LLP, Certified Public Accountants (the "Auditor") regarding such financial statements, is set forth in Appendix B. The City has not requested the Auditor to consent to the inclusion of its report in Appendix B and it has not undertaken to update financial statements included in Appendix B. A complete copy of the City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2013, as well as the reports for prior years, can be obtained from the City's Administrative Services Department.

Table 15
CITY OF BREA
Water Utility Fund
Statement of Net Assets
Fiscal Years 2009-10 through 2013-14

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	(unaudited) FY 2013-14
Assets					
<i>Current:</i>					
Cash and investments	\$ 2,925,368	\$ 1,477,478	\$ 2,474,783	\$ 779,004 ⁽¹⁾	\$ 4,336,336 ⁽²⁾
Accounts Receivables	1,848,706	1,774,787	1,997,841	3,338,846 ⁽³⁾	2,888,824
Deposits	--	--	--	1,133,328 ⁽⁴⁾	--
Restricted assets: Cash and investments	16,425,640 ⁽⁵⁾	7,028,848 ⁽⁵⁾	2,248,086 ⁽⁵⁾	2,271,389 ⁽¹⁾	--
Restricted assets: Cash with fiscal agent	4,726,547	5,064,883	5,217,299	5,139,863	5,190,686
Total Current Assets	<u>25,926,261</u>	<u>15,345,996</u>	<u>11,938,009</u>	<u>12,662,430</u>	<u>12,415,846</u>
<i>Noncurrent:</i>					
Capital assets, net of accumulated depreciation	51,408,303	52,996,439	53,015,834	53,136,247	51,176,488
Unamortized debt issuance costs ⁽⁶⁾	282,512	269,448	--	--	--
Deferred charges ⁽⁷⁾	--	--	256,384	--	--
Other investments ⁽⁸⁾	269,243	3,083,116	11,224,928	11,626,520	35,557,540
Total Noncurrent Assets	<u>51,960,058</u>	<u>56,349,003</u>	<u>64,497,146</u>	<u>64,762,767</u>	<u>86,734,028</u>
Total Assets	<u>\$77,886,319</u>	<u>\$71,694,999</u>	<u>\$76,435,155</u>	<u>\$77,425,197</u>	<u>\$99,149,874</u>
				<u>\$1,310,432</u>	<u>\$1,146,628</u>
Deferred charges of refunding ⁽⁷⁾					
Liabilities					
<i>Current:</i>					
Accounts payable	\$ 2,839,956	\$ 2,241,252	\$ 2,458,794	\$2,896,248	\$3,092,062
Accrued liabilities	19,237	28,808	39,306	38,054	38,054
Deposits payable	146,645	165,550	176,560	198,330	219,480
Due to other funds	--	--	--	--	20,443,520 ⁽⁹⁾
Accrued compensated absences, due within one year	16,347	57,757	63,550	56,243	56,243
Bonds, notes and capital leases, due within one year	335,000	495,000	940,000	975,000	1,015,000
Accrued interest	811,795	1,037,432	1,031,863	1,021,188	1,008,838
Total Current Liabilities	<u>4,168,980</u>	<u>4,025,799</u>	<u>4,710,073</u>	<u>5,185,063</u>	<u>25,873,188</u>
<i>Noncurrent:</i>					
Advances from other funds	--	--	5,243,781 ⁽¹⁰⁾	4,445,448 ⁽¹⁰⁾	3,644,078 ⁽¹⁰⁾
Compensated absences payable, due in more than a year	49,041	8,497	21,183	18,747	18,747
Bonds, notes and capital leases, due in more than a year	35,711,218	35,375,186	34,594,155	35,088,555	34,083,427
Total Noncurrent Liabilities	<u>35,760,259</u>	<u>35,383,683</u>	<u>39,859,119</u>	<u>39,552,750</u>	<u>37,746,252</u>
Total Liabilities	<u>\$39,929,239</u>	<u>\$39,409,482</u>	<u>\$44,569,192</u>	<u>\$44,737,813</u>	<u>\$63,619,440</u>
Net assets/position					
Invested in capital assets, net of related debt	\$35,173,890	\$24,155,101	\$24,645,392	\$23,522,987	\$22,415,375
Restricted for capital projects	--	--	--	2,271,389 ⁽¹⁾	--
Restricted for debt service	--	5,064,883	5,217,299	5,139,863	5,190,686
Unrestricted	2,783,190	3,065,533	2,003,272	3,063,577	9,071,001
Total Net Assets	<u>\$37,957,080</u>	<u>\$32,285,517</u>	<u>\$31,865,963</u>	<u>\$33,997,816</u>	<u>\$36,677,062</u>

(1) Decrease between from prior fiscal year in large part due to set-aside of cash, in an amount of \$2,271,389, for a portion of the purchase price to acquire water rights from CDWC, which purchase transaction was completed on July 25, 2013. See also footnote 8 below.

(2) Increase relative to prior fiscal year largely due to increase in operating revenues, see Table 16.

(3) Includes \$700,000 of settlement from litigation, see footnote 4 to Table 16.

(4) Reflects agreement by the City and CDWC to release and apply moneys that the City had previously paid to CDWC as prepayment for CDWC's capital improvement program towards the purchase price for the water right purchase in July 2013. See footnote 1 above.

(5) Consists, primarily, of proceeds from 2009 Bonds and 2010 Bonds.

(6) Reflect reconciliation relating to issuance of 2009 and 2010 Bonds, for accounting purposes only. Item eliminated for audited financial statements beginning in fiscal year 2012-13 due to change in rules established by Governmental Accounting Standards Board ("GASB")

(7) Reflects reconciliation relating to issuance of 2009A Bonds, which refunded prior bonds and produced debt service savings but resulted in economic loss for accounting purposes. Previously, such reconciliation included under "Bonds, notes and capital leases, due in more than a year."

(8) Reflects the City's CDWC stocks (including common shares and preferred shares). Increase in 2013-14 (relative to prior fiscal year) primarily reflects water right purchases in July 2013 (see footnote 1) and May 2014 (see "PLAN OF FINANCING") and net assets increase.

(9) Reflects Interfund Loan discussed under "PLAN OF FINANCING – Acquisition of Additional Water Rights" made in May 2014, which will be repaid with the proceeds from the sale of the 2014 Bonds.

(10) Reflects outstanding amount of interfund loans (borrowings from other City funds) for water rights purchases, which interfund loans are subordinate to the 2009 Bonds, the 2010 Bonds and the 2014 Bonds.

Source: City of Brea audited financial statements for fiscal years 2009-10 through 2012-13, with additional explanations for footnotes from City of Brea Administrative Services Department; City of Brea Administrative Services Department for fiscal year 2013-14 unaudited information.

Table 16
CITY OF BREA
Water Utility Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
Fiscal Years 2009-10 through 2013-14

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	(unaudited) FY 2013-14
<u>Operating revenues</u>					
Charges for services	\$ 11,071,023	\$ 11,247,206	\$ 12,713,447	\$ 14,778,353	\$17,022,650
Connection fees ⁽¹⁾	34,731	223,957	1,041,014	584,801	717,068
Miscellaneous ⁽²⁾	238,943	233,709	664,749 ⁽³⁾	977,516 ⁽⁴⁾	990,262
Total operating revenues	11,344,697	11,704,872	14,419,210⁽³⁾	16,340,670⁽⁴⁾	18,729,980
<u>Operating expenses</u>					
Personnel services	2,218,578	2,331,920	2,515,278	2,492,830	2,863,265
Maintenance and operation	1,459,135	1,412,277	1,812,177	1,281,828	1,378,703
Costs of purchased water	6,793,844	6,766,624	6,868,916	6,926,073	7,496,514
Depreciation expense	1,676,615	1,637,830	1,959,461	1,959,759	1,959,759
Total operating expenses	12,148,172	12,148,651	13,155,832	12,660,490	13,698,241
Operating income (loss)	(803,475)	(443,779)	1,263,378⁽³⁾	3,680,180⁽⁴⁾	5,031,739
<u>Non-operating revenues (expenses)</u>					
Federal interest subsidy ⁽⁵⁾	378,582	557,391	527,402 ⁽³⁾	504,460	489,429
Settlement ⁽⁴⁾	--	--	--	700,000 ⁽⁴⁾	--
Interest revenue	820,278	393,698	280,946	24,693	63,191
Interest expense	(1,737,957)	(2,246,896)	(2,246,289)	(2,220,134)	(2,191,343)
Gain (loss) on disposal of fixed assets	70,830	129,729	90,551	176,984	--
Total non-operating revenue (expenses)	(468,267)	(1,166,078)	(1,347,390)⁽³⁾	(813,997)⁽⁴⁾	(1,638,723)
Income (Loss) before transfers	(1,271,742)	(1,609,857)	(84,012)	2,866,183	3,393,016
Transfers in	--	--	--	--	--
Transfers out ⁽⁶⁾	(9,998)	(4,061,706)	(335,542)	(931,111)	(713,770)
Changes in net assets/position	(1,281,740)	(5,671,563)	(419,554)	1,935,072	2,679,246
<u>Net assets/Position</u>					
Beginning of fiscal year	39,238,820	37,957,080	32,285,517	31,865,963	33,997,816
Addition due to restatement ⁽⁷⁾	--	--	--	196,781	--
End of fiscal year	<u>\$37,957,080</u>	<u>\$32,285,517</u>	<u>\$31,865,963</u>	<u>\$33,997,816</u>	<u>\$36,677,062</u>

- (1) Lower dollar amount of connection fees collected in fiscal year 2009-10 and subsequent increase reflective, in part, of the changes of the volume of real estate activities during the economic recession which began around 2007 and subsequent recovery of the real estate market (particularly for residential properties) in the City.
- (2) Starting in fiscal year 2011-12, includes, among other revenues, rebates from South California Edison for the solar energy installations at the City's Water System facilities (the "SCE Rebate"). The SCE Rebate is expected to continue until September 2016.
- (3) Restates, and differs from, the City's fiscal year 2011-12 audited financial statements. In the audited financial statements for fiscal year 2011-12 only, "Federal interest subsidy" (see footnote 5 below) was included as part of "miscellaneous" under "operating revenues," and not as a separate line item under "Non-operating revenues (expenses)."
- (4) Restates, and differs from, the City's fiscal year 2012-13 audited financial statements. In the audited financial statements for fiscal year 2012-13, \$116,239 of the SCE Rebate (see footnote 2 above) was inadvertently added to the \$700,000 "settlement" from litigation regarding certain design and construction defects of equipment at Berry Street Booster Pumping Station. This table reflects the actual settlement amount of \$700,000. The \$977,516 of "miscellaneous" under "operating revenues" now includes \$116,239 of SCE Rebate.
- (5) Includes Refundable Credits for the 2009B and, for each year except fiscal year 2009-10, the 2010B Bonds. See "SECURITY FOR 2014 BONDS – Pledge of New Revenues; Water Utility Fund" and "BONDOWNERS' RISKS – Refundable Credits Relating to Parity Bonds (2009B Bonds and 2010B Bonds)."
- (6) Reflects primarily, project costs that, for accounting purposes, were not capitalized within the Water Utility Fund, but were instead "transferred out" to other capital project funds. For example, in fiscal year 2010-11, the approximately \$4 million of "transfers out" relate to costs of a solar energy project that were financed in part, from the proceeds of the 2010 Bonds but, pursuant to accounting capitalization rules, are "transferred out" to other capital project funds.
- (7) Relates to the elimination of "unamortized debt issuance cost/deferred charges" per GASB rules. See footnote 6 under Table 15.

Source: City of Brea audited financial statements for fiscal years 2009-10 through 2012-13, with additional explanations for footnotes from City of Brea Administrative Services Department; City of Brea Administrative Services Department for fiscal year 2013-14 unaudited information.

Debt Service Coverage

Table 17 sets forth the scheduled annualized debt service for the 2009A Bonds, the 2009B Bonds, the 2010A Bonds, the 2010B Bonds and the 2014 Bonds, net of Refundable Credits for the 2009B Bonds and 2010B Bonds, assuming that sequestration rate of 7.2 percent, which was announced by the IRS on September 20, 2013 will continue indefinitely (see “BONDOWNERS’ RISKS – Refundable Credits Relating to Parity Bonds (2009B Bonds and 2010B Bonds)”), and assuming no optional redemption prior to maturity.

Table 18 sets forth the historical debt service coverage from fiscal years 2009-10 through 2013-14, as well as the projected debt service coverage for fiscal years 2014-15 through 2018-19. These projections reflect the City’s current expectations only and are subject to a number of factors and uncertainties that could cause actual results of operations and funds available for debt service to differ materially from those set forth herein. See “WATER SYSTEM,” “BONDOWNERS’ RISKS” and “CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES.”

The projected debt service coverage in Table 18 assumes no increase in Service Charge Revenues after fiscal year 2014-15, and at the same time annual increases to expenses (two percent annual increase to personnel services and other operation and maintenance expenses after fiscal year 2014-15, and four percent annual increase to the cost of purchased water after fiscal year 2014-15). There is no guarantee that the debt service coverage projected in Table 18 will in fact be realized. While the City believes that that the assumptions underlying the projections set forth in Table 18 are reasonable, there are a number of factors and uncertainties that could cause actual results to differ materially from those projected. For example, as discussed under “WATER SYSTEM – Water Conservation and Supply Shortage Contingency; Current State Drought,” the State is currently experiencing a severe drought. The lack of water supply may lead to cost increase beyond projected levels. At the same time, water conservation measures to be implemented because of the drought may lead to a decrease of customer usage volume and a corresponding decrease in revenues. See “WATER SYSTEM,” “BONDOWNERS’ RISKS” and “CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES.”

Table 17
CITY OF BRE A
Water System
Annualized Scheduled Debt Service

Bond Year ending July 1	2009A Bonds	2009B Bonds⁽¹⁾	2010A Bonds	2010B Bonds⁽¹⁾	2014 Bonds	Total⁽²⁾
2015	\$ 995,963	\$ 589,981	\$ 546,800	\$ 427,453	\$ 991,348	\$ 3,551,545
2016	992,925	589,981	561,600	427,453	1,179,669	3,751,628
2017	992,975	589,981	--	552,453	1,177,069	3,312,478
2018	990,850	589,981	--	573,758	1,179,069	3,333,658
2019	991,450	589,981	--	594,053	1,180,469	3,355,953
2020	991,050	589,981	--	618,329	1,181,269	3,380,629
2021	994,650	589,981	--	641,415	1,177,769	3,403,815
2022	992,050	589,981	--	668,172	1,178,519	3,428,722
2023	993,450	589,981	--	693,245	1,177,319	3,453,995
2024	991,788	589,981	--	721,620	1,181,319	3,484,708
2025	992,881	589,981	--	748,005	1,179,069	3,509,936
2026	991,431	589,981	--	777,420	1,180,819	3,539,651
2027	992,350	589,981	--	808,183	1,181,319	3,571,833
2028	995,313	589,981	--	841,708	1,180,569	3,607,571
2029	466,138	1,114,981	--	872,773	1,178,569	3,632,461
2030	--	1,581,054	--	906,377	1,180,319	3,667,750
2031	--	1,579,794	--	942,297	1,180,569	3,702,660
2032	--	1,576,484	--	979,826	1,179,319	3,735,629
2033	--	1,576,122	--	979,176	1,178,031	3,733,329
2034	--	1,573,482	--	976,936	1,180,250	3,730,668
2035	--	1,573,563	--	978,108	1,180,750	3,732,421
2036	--	1,571,137	--	977,462	1,179,500	3,728,099
2037	--	1,571,205	--	--	1,181,500	2,752,705
2038	--	1,568,538	--	--	1,181,500	2,750,038
2039	--	1,563,136	--	--	1,179,500	2,742,636
2040	--	--	--	--	1,180,500	1,180,500
2041	--	--	--	--	1,179,250	1,179,250
2042	--	--	--	--	1,180,750	1,180,750
2043	--	--	--	--	1,179,750	1,179,750
2044	--	--	--	--	1,181,250	1,181,250
Total⁽²⁾	<u>\$14,365,263</u>	<u>\$25,109,234</u>	<u>\$1,108,400</u>	<u>\$16,706,220</u>	<u>\$35,206,898</u>	<u>\$92,496,015</u>

(1) Represents scheduled annual debt service net of Refundable Credits, assuming that sequestration rate of 7.2 percent, which was announced by the IRS on September 20, 2013 will continue indefinitely. See “BONDOWNERS’ RISKS – Refundable Credits Relating to Parity Bonds (2009B Bonds and 2010B Bonds).”

(2) Total may not equal to sum due to rounding.

Source: Stifel, Nicolaus & Company, Incorporated.

Table 18
CITY OF BREA
Water System
Debt Service Coverage
Fiscal Years 2010-11 through 2018-19

<i>Fiscal year ended June 30,</i>	Historical Debt Service Coverage ⁽¹⁾					Projected Debt Service Coverage ⁽²⁾				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Revenues										
Charges for Services ⁽³⁾	\$11,071,023	\$11,247,206	\$12,713,447	\$14,778,353	\$17,022,650	\$18,585,000	\$19,142,550	\$19,142,550	\$19,142,550	\$19,142,550
Miscellaneous ⁽⁴⁾	238,943	233,709	664,749	977,516	990,262	938,500	938,500	657,000	526,500	526,500
Interest Revenue ⁽⁵⁾	820,278	393,698	280,946	24,693	63,191	71,190	94,712	48,945	50,773	53,877
Revenues	<u>12,130,244</u>	<u>11,874,613</u>	<u>13,659,142</u>	<u>15,780,562</u>	<u>\$18,076,103</u>	<u>\$19,594,690</u>	<u>20,175,762</u>	<u>19,848,495</u>	<u>19,719,823</u>	<u>19,722,927</u>
Operating Expenses										
Personnel Services ⁽⁶⁾	2,218,578	2,331,920	2,515,278	2,492,830	2,863,265	2,971,542	3,030,973	3,091,592	3,153,424	3,216,493
Operation & maintenance ⁽⁶⁾	1,459,135	1,412,277	1,812,177	1,281,828	1,378,703	1,630,588	1,663,200	1,696,464	1,730,393	1,765,001
Cost of Purchased Water ⁽⁷⁾	6,793,844	6,766,624	6,868,916	6,926,073	7,496,514	7,027,500	7,308,600	7,600,944	7,904,982	8,221,181
Expenses	<u>10,471,557</u>	<u>10,510,821</u>	<u>11,196,371</u>	<u>10,700,731</u>	<u>11,738,482</u>	<u>11,629,630</u>	<u>12,002,773</u>	<u>12,389,000</u>	<u>12,788,799</u>	<u>13,202,675</u>
Net Revenue⁽⁸⁾	<u>\$1,658,687</u>	<u>\$1,363,792</u>	<u>\$2,462,771</u>	<u>\$5,079,831</u>	<u>\$6,337,621</u>	<u>7,965,060</u>	<u>8,172,989</u>	<u>7,459,495</u>	<u>6,931,024</u>	<u>6,520,252</u>
Debt Service⁽⁹⁾										
2009 A & B Bonds ⁽¹⁰⁾	\$1,525,180	\$1,559,462	\$1,563,324	\$1,572,807	\$1,581,994	\$1,585,944	\$1,582,906	\$1,582,956	\$1,580,831	\$1,581,431
2010 A & B Bonds ⁽¹⁰⁾	--	118,675	841,499	843,912	853,652	974,252	989,052	552,452	573,758	594,053
2014 Bonds	--	--	--	--	--	991,348	1,179,669	1,177,069	1,179,069	1,180,469
Total Debt Service⁽¹¹⁾	<u>\$1,525,180</u>	<u>\$1,678,137</u>	<u>\$2,404,823</u>	<u>\$2,416,719</u>	<u>\$2,435,646</u>	<u>\$3,551,545</u>	<u>\$3,751,628</u>	<u>\$3,312,478</u>	<u>\$3,333,658</u>	<u>\$3,355,953</u>
Estimated Coverage⁽¹²⁾	1.09	0.81	1.02	2.10	2.60	2.24	2.18	2.25	2.08	1.94

- (1) For items under "Operating Revenues" and "Operating Expenses" items, fiscal years 2009-10 through 2013-14 dollar amounts are consistent with those presented in Table 16.
 - (2) Based on current assumptions only. While the City believes that the assumptions are reasonable, the City cannot guarantee that actual results will not differ.
 - (3) Includes fixed meter charges and commodity charges. Increased revenues in fiscal years 2012-13 and 2013-14 reflect rate increases which took effect in 2013 and 2014, as well as new development within the City. Projected revenues for fiscal year 2014-15 based on figures appearing in City's adopted fiscal year 2014-15 budget. Projected revenues for fiscal year 2015-16 assume a three percent increase from the prior fiscal year. Assumes no increase thereafter.
 - (4) Includes SCE Rebate which is expected to continue until September 2016. See footnote 2 to Table 16. Projected miscellaneous revenues for fiscal year 2014-15 based on figures appearing in City's adopted fiscal year 2014-15 budget. Assumes no increase thereafter.
 - (5) Interest earnings assumed at 0.7 percent of average annual beginning and ending annual cash balance, assuming beginning cash balance of \$7.5 million on July 1, 2014, including parity debt bond proceeds and bond reserve funds.
 - (6) Expenses for personnel services and operation and maintenance for fiscal year 2014-15 based on figures appearing in City's adopted fiscal year 2014-15 budget. Assumes two percent annual increase thereafter.
 - (7) Cost of purchased water for fiscal year 2014-15 based on figures appearing in City's adopted fiscal year 2014-15 budget, less \$472,500 estimated savings based on May 2014 water right purchases described in this Official Statement. See "PLAN OF FINANCING." Assumes four percent annual increase after fiscal year 2014-15.
 - (8) Equals "Operating Revenues" minus "Operating Expenses"; or, as defined in the Installment Sale Agreement, Gross Revenues, minus Operating and Maintenance Costs. See "SECURITY FOR 2014 BONDS – Pledge of Net Revenues; Water Utility Fund – *Certain Definitions*"
 - (9) Debt service figures are based on bond years ending July 1 of each year. Net Revenues are based on fiscal years ending June 30 of each year.
 - (10) Represents scheduled annual debt service net of Refundable Credits for the 2009B Bonds and 2010B Bonds, assuming that sequestration rate of 7.2 percent, which was announced by the IRS on September 20, 2013 will continue indefinitely. See "BONDOWNERS' RISKS – Refundable Credits Relating to Parity Bonds (2009B Bonds and 2010B Bonds)."
 - (11) Total may not equal to sum due to rounding.
 - (12) Estimated coverage represents the ratio of (a) Net Revenues (not including Refundable Credits) to (b) debt service on the 2009 Bonds, 2010 Bonds and 2014 Bonds, net of Refundable Credits.
- Source: Fieldman, Rolapp & Associates, based on operating revenues and expenses provided by the City of Brea.

Pension Plans

The City pays an allocable portion of the City's administrative expenses, including employee compensation and benefits from revenues of the Water System. See Table 16 above. Under the Indenture, Net Revenues (which are pledged to the payment of the 2014 Bonds) is defined as Gross Revenues less Operation and Maintenance Costs. Operation and Maintenance Costs include, among other things, administrative costs of the City attributable to the operation and maintenance of the Water System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits and licenses to operate the Water System and insurance premiums.

All permanent City employees are eligible to participate in the Public Employee's Retirement Fund of the California Public Employees Retirement System ("CalPERS"). CalPERS is an agent multiple employer public employee retirement system and issues its own comprehensive annual financial report. CalPERS acts as a common investment and administrative agent for participating public entities within the State. A menu of benefit provisions as well as other requirements of the CalPERS program are established by the Public Employees' Retirement Law set forth in California Government Code (commencing with Section 20000). The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (or other local methods). contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

CalPERS participants are required to make contribution to the CalPERS fund based on a percentage of their covered annual salary. Public safety employees of the City are required to contribute nine percent of their annual covered salary. As of July 1, 2014, the employees covered under the safety plan contribute their full nine percent. All other employees are required to contribute seven percent of their annual covered salary. Among such employees, those hired after July 1, 2011, are required to contribute the full seven percent of their annual covered salary. As of July 1, 2014, those employees under the miscellaneous plan who were hired before July 1, 2011, contribute 4.5 percent of their annual covered salary, with the City contributes the remaining 2.5 percent of the employee portion on behalf of the employees.

The City is also required to contribute an amount at an actuarially determined rate calculated as a percentage of covered payroll to fund the benefits for the CalPERS members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The employer's required contribution rate for the year ended June 30, 2013, was 30.959 percent for safety employees 12.332 percent for miscellaneous employees.

For the year ended June 30, 2013, the City's annual pension cost (employer contribution) of \$3,994,912 for safety and \$1,863,614 for miscellaneous employees was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75 percent investment rate of return (net of administrative expenses); (b) projected salary increases depending on age, service and type of employment ranging from 3.55 percent to 14.45 percent; (c) 3.0 percent inflation and (d) payroll growth of 3.25 percent. The actuarial value of the CalPERS plan assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen-year period.

Changes in liability due to plan amendments, changes in actuarial assumptions or changes in actuarial methods are amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization periods at the June 30, 2010 valuation date were: 29 years for public safety plan and 22 years for the miscellaneous plan.

The follow table shows the City's annual pension cost funding for the CalPERS safety plan for fiscal years 2010-11 through 2012-13.

Fiscal Year Ended June 30	Annual Pension Cost (Employer Contribution)	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2011	\$3,905,652	100%	\$0
2012	4,588,912	100	0
2013	3,994,912	100	0

Source: City of Brea.

The follow table shows the City's annual pension cost funding for the CalPERS miscellaneous plan for fiscal years 2010-11 through 2012-13.

Fiscal Year Ended June 30	Annual Pension Cost (Employer Contribution)	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2011	\$1,404,049	100%	\$0
2012	1,673,190	100	0
2013	1,863,614	100	0

Source: City of Brea.

In calculating the annual actuarially recommended contribution rates, the CalPERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that CalPERS will fund under the CalPERS plans, which includes two components, the normal cost and the unfunded actuarial liability with respect to such plan. The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS plans that are attributed to the current year, and the unfunded actuarial liability represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The unfunded actuarial liability represents an estimate of the actuarial shortfall between assets on deposit at CalPERS and the present value of benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement. The unfunded actuarial liability is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases, and occurrences of disabilities. In addition, the unfunded actuarial liability includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of 6 percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial

value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period

With respect to the City’s CalPERS safety plan, the plan was 79.7 percent funded as of June 30, 2012, the most recent actuarial valuation date. The actuarial accrued liability for benefits was \$191,751,750, and the actuarial value of assets was \$152,827,533, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$38,924,217. The covered payroll (annual payroll of active employees covered by the plan) was \$14,695,318, and the ratio of the UAAL to the covered payroll was 264.9 percent.

Schedule of Funding Progress for PERS Safety Plan

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Annual Funded Ratio	Annual covered Payroll	Unfunded Liability as % of Payroll
6/30/2010	\$174,883,959	\$138,850,541	\$36,033,418	79.4%	\$15,557,390	231.6%
6/30/2011	186,247,711	146,056,253	40,191,458	78.4	15,035,741	267.3
6/30/2012	191,751,750	152,827,533	38,924,217	79.7	14,695,318	264.9

Source: City of Brea audited financial statements for fiscal year 2012-13, based on information provided by CalPERS.

With respect to the City’s CalPERS miscellaneous plan, the plan was 85.5 percent funded as of June 30, 2012, the most recent actuarial valuation date. The actuarial accrued liability for benefits was \$102,226,046 and the actuarial value of assets was \$87,360,704 resulting in an UAAL of \$14,865,342. The covered payroll (annual payroll of active employees covered by the plan) was \$14,569,909, and the ratio of the UAAL to the covered payroll was 102.0 percent.

Schedule of Funding Progress for PERS Miscellaneous Plan

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Annual Funded Ratio	Annual covered Payroll	Unfunded Liability as % of Payroll
6/30/2010	\$91,534,605	\$79,178,456	\$12,356,149	86.5%	\$14,418,707	85.7%
6/30/2011	97,834,352	83,443,780	14,390,572	85.3	14,691,017	98.0
6/30/2012	102,226,046	87,360,704	14,865,342	85.5	14,569,909	102.0

Source: City of Brea audited financial statements for fiscal year 2012-13, based on information provided by CalPERS.

According to the CalPERS valuation reports, the “Actuarial Value of Assets” is used to establish funding requirements, and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. Complete actuarial assumptions can be obtained from CalPERS at Lincoln Plaza North, 400 Q Street Sacramento, California 95811 or (888) 225-7377.

Other Post-Employment Benefits Other Than Pensions

In addition to providing pension benefits, the City provides medical insurance for certain employees after they separate from the City, through a single-employer defined benefit plan as provided under the City's contractual agreements with members from each unit. Members who retire from the City on or after attaining the age of 50 with at least five years of service are eligible for these benefits.

Currently, the City funds retiree healthcare benefits on a pay-as-you-go basis (paying a maximum of \$350 per month for retired employees who were in the management level and a maximum of \$335 per month for other retired employees generally) from the City funds as they are due with no pre-funding for future years. The City recognizes expenditure for its share of the annual premiums as these benefits become due. For fiscal year ended June 30, 2013, the City paid \$776,718 for benefits of 207 retired employees.

The City's annual other post-employment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 1,443,000
Interest on net pension obligation	110,000
Adjustment to ARC	(229,000)
Annual OPEB cost	<u>1,324,000</u>
Contribution made	<u>776,718</u>
Increase (decrease) in net OPEB obligation	547,282
Net OPEB obligation - July 1, 2012	<u>3,142,728</u>
Net OPEB obligation - June 30, 2013	<u><u>\$ 3,690,010</u></u>

Source: City of Brea audited financial statements for fiscal year 2012-13.

The following table shows the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years shown.

Fiscal Year	Annual OPEB Cost	OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$1,447,000	\$816,909	56.46%	\$2,317,338
6/30/2012	1,523,000	697,610	45.80	3,142,728
6/30/2013	1,324,000	776,718	58.66	3,690,010

Source: City of Brea audited financial statements for fiscal year 2012-13.

The required contribution is based on projected pay-as-you-go financing requirements with additional amount to prefund benefits as determined annually by the City under an actuarial

valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, including but not limited to assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision. The following table shows the schedule of funding progress, which presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress for OPEB

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Annual Funded Ratio	Annual covered Payroll	Unfunded Liability as % of Payroll
6/30/2007	\$17,585,000	\$ -	\$17,585,000	0.00%	\$28,856,000	60.9%
6/30/2009	17,269,000	-	17,269,000	0.00	27,603,000	62.6
6/30/2011	18,197,000	-	18,197,000	0.00	24,983,000	72.8

The actuarial valuation, dated June 30, 2011, used the Entry Age Normal actuarial cost method, a discount rate of 4.00 percent which is the long-term expected rate of return on the City’s investment fund, an annual general inflation rate of 3.00 percent, and an annual aggregate payroll increase of 3.25 percent. Annual healthcare cost is assumed to trend at 8.5 percent to 8.9 percent, reduced by decrements of 0.5 percent per year to an ultimate rate of 5.0 percent after 2021. The unfunded accrued actuarial liability is being amortized over a closed 26-year period as a level percentage of payroll. As of the June 30, 2011 actuarial valuation date, the City had 294 active participants and 173 retirees receiving benefits.

BONDOWNERS’ RISKS

Investment in the 2014 Bonds involves elements of risk. The following section describes certain specific risk factors affecting the payment and security of the 2014 Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2014 Bonds and the order of discussion of such risks does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the 2014 Bonds. There can be no assurance that other risk factors not discussed under this caption will not become material in the future.

Limited Obligations of Authority and City

The 2014 Bonds, when issued will be limited obligations of the Authority and are payable solely from, and secured by, a pledge of Revenues and certain funds and accounts held under the Indenture. Revenues consist primarily of Installment Payments payable by the City under the Installment Sale Agreement. If, for any reason, the Revenues collected under the Indenture are not sufficient to pay debt service on the 2014 Bonds, the Authority will not be obligated to utilize any other of its funds, other than moneys on deposit in certain funds and accounts established under the Indenture, to pay debt service on the 2014 Bonds. The Authority

has no taxing power. The City's obligation to pay Installment Payments is a special obligation of the City limited solely to the Net Revenues of the Water System. No other funds or property of the City will be liable for the payment of the 2014 Installment Payments or any other amounts payable under the Installment Sale Agreement or the Indenture. The 2014 Installment Payments do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Water Supply

Water is a limited resource. Periodic droughts in the region have from time to time impacted water availability in the Colorado River Basin and in the State of California. At the same time, population and development growth have increased the demand on the water supply. Decreases in supply and increases in demand present challenges to water agencies and lead to cost increases for water suppliers.

At the time of the printing of this Official Statement, the State is experiencing a severe drought period. Previously, Governor Arnold Schwarzenegger declared a statewide drought in 2008, which was finally rescinded in 2011. However, then, 2011 was followed by a relatively dry 2012. Calendar year 2013 closed as the driest year in recorded history for many areas of California. The severe drought is continuing in 2014. Governor Brown has issued the 2014 Drought Proclamation. See "WATER SYSTEM – Water Conservation and Supply Shortage Contingency; Current State Drought."

The City depends on two wholesale sources for its water: CDWC and MWD (through MWDOC). As the costs to these water suppliers increase, they will adjust the rates and charges to be paid by their purchasers, such as the City. In recent years, prices for water purchases from CDWC and MWDOC have already increased, due to a combination of regulatory restrictions, local drought conditions and reduced flow from the Colorado River. See Table 1 under "WATER SYSTEM – Water Supply." Historically, water purchases from CDWC are less expensive than water purchases from MWDOC. The City has taken significant steps during the past few years to increase the City's CDWC stock ownership. See discussions under "PLAN OF FINANCING – Acquisition of Additional Water Rights (CDWC Shares)" and "WATER SYSTEM – Water Supply – *California Domestic Water Company; Main San Gabriel Basin.*" While the City's greater entitlement in CDWC water will likely help the City realize a cost savings relative to the alternative scenario (of having to make additional purchases from MWDOC), the City cannot provide any assurances regarding the future rate of increase to the cost of purchased water from any source.

Generally, conservation measures, while decreasing customer volume usage and potentially revenues in the short-term, help improve water supply reliability and stabilize costs in the long-term. However, as the drought persists, the implementation of stringent conservation measures will affect the usage volume by Water System customers and could also impact revenues to the Water System, unless there is a compensating rate of increase in the number of customer accounts or in service charge rates (or a combination of both). The City cannot predict how long the current drought will continue and its ultimate effect on the Water System's revenues and expenses. See discussion regarding potential impacts on debt service coverage

projections immediately preceding Table 17 under “WATER SYSTEM FINANCIAL INFORMATION – Debt Service Coverage.”

Water System Operation and Expenses; Net Revenues

Projected revenues, operational expenses and demands of the Water System described in this Official Statement are based on certain assumptions that the City believes are reasonable. However, no assurance can be given that actual operating results will be consistent with these projections. In addition to the potential impact of the State drought discussed under “Water Supply” above, Net Revenues may also be affected by the disruption in service from system failures, a lack of development, the relocation of customers out of the Service Area, or the discontinued use of the City’s water services by one or more major customers, an increase in operating costs of the Water System, or a number of other risk factors, whether or not described in this Official Statement. The occurrence of any of these events, or changes in technology or regulatory standards, could impact the Water System’s revenues and expenses. In such case, the City may be required to increase service charges for the Water System in order to comply with the City’s rate covenant under the Installment Sale Agreement. Under certain circumstances, the City could be unable to raise rates in accordance with the rate covenant. See, for example, “CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES.” Receipt of the Water System’s Net Revenues in amounts sufficient to pay the 2014 Installment Payments is dependent on the continual use of the services at forecasted levels.

Regulatory Requirements

The operations of the Water System are subject to state and federal laws and regulations, particularly with respect to water quality requirements. The adoption of more stringent laws and regulations may cause the City to incur greater expenses for the operation of the Water System, particularly, for example, if such changes require the use of new or costly technology. Similarly, more stringent laws and regulations applicable to the City’s water suppliers (*i.e.*, CDWC and MWD) may increase operating costs for these suppliers, which may in turn increase the costs of the City’s water purchases. Although the City covenants in the Installment Sale Agreement to fix rates and collect revenues for the Water System to meet certain debt service coverage requirements (see “SECURITY FOR 2014 BONDS – Rate Covenants”), no assurance can be given that the costs of complying with such new laws and regulations will not adversely affect the City’s ability to generate sufficient Net Revenues in the amounts required by the Installment Sale Agreement. It is not possible to predict the timing or nature of more stringent operation standards that may be imposed on the City over the term of the 2014 Bonds.

Refundable Credits Relating to Parity Bonds (2009B Bonds and 2010B Bonds)

The 2009B and the 2010B were issued as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 and are intended to be eligible for Refundable Credits – *i.e.*, a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009B Bonds and the 2010B Bonds. The Refundable Credits are not pledged and are not available for debt service with respect to any of the 2009A Bonds, the 2010A Bonds and the 2014 Bonds. However, to the extent that the Refundable

Credits are received, the dollar amount of such Refundable Credits are credited towards the related 2009 Installment Payments and the 2010 Installment Payments, thereby reducing to the amount of Net Revenues required for the aggregate debt service on the Parity Debt.

The Refundable Credits do not constitute a full faith and credit guarantee of the United States with respect to the 2009B Bonds or the 2010B Bonds. No assurance can be given that any legislation or clarifications or amendments to the Tax Code, if enacted into law, will not contain proposals which could reduce or eliminate the Refundable Credits. Pursuant to the Tax Code, the Refundable Credits are required to be paid by the United States Treasury only upon proper application by the Authority, the City and the Trustee. Neither the City nor the Authority can provide assurances or have any control regarding whether the United States Treasury will make payment of the Refundable Credits in the amounts to which the Authority and the City believe they are entitled, nor that such payments will be made in a timely manner. For example, in 2013, as the result of automatic spending cuts (referred to as “sequestration”) that went into effect as of March 1 2013, the IRS announced that refundable credits with respect to all Build America Bonds were subject to a reduction of 8.7 percent until the end of the fiscal year (September 30, 2013). On September 30, 2013, the IRS announced that refundable credit payments processed on or after October 1 through September 30, 2014, will be reduced by a sequestration rate of 7.2 percent for issuers of Build America Bonds.

Failure to satisfy certain requirements, with which the Authority and the City have covenanted to comply in connection with the issuance of the 2009B Bonds and 2010B Bonds, may also result in a delay or forfeiture of all or a portion of the Refundable Credit and may cause the affected 2009B Bonds or 2010B Bonds to cease to be treated as “Qualified Bonds” under the Tax Code either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the respective issuance date of the 2009B Bonds or the 2010B Bonds.

The projected debt service coverage shown in Table 18 assumes that the continual receipt of the expected Refundable Credits but also assumes that the 7.2 percent sequestration rate will continue indefinitely. If the Refundable Credits become significantly reduced or unavailable for any reason and the City may have to raise water rates in order to meet the rate covenants set forth in Installment Sale Agreement. See “SECURITY FOR 2014 BONDS – Rate Covenants,” but see “CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES.”

Natural Calamities

From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City. The City, like most communities in California, is in an area of unpredictable seismic activity, and therefore, is subject to potentially destructive earthquakes. Two major faults traverse through the City, the Whittier fault and the Elysian Park thrust fault. The Whittier fault cuts across the hills and through the eastern half of the City in a northwesterly direction. Several traces of the Whittier fault are still active. The Elysian Park thrust fault is buried approximately six to ten miles below the ground surface of the City. The San Andreas Fault lies 33 miles from the City. The occurrence of a natural calamity, such as an earthquake, a drought, a flood or any other disaster, may affect the City’s water supply, substantially damage

or destroy Water System facilities or otherwise disrupt the Water System's operation. In such circumstances, Net Revenues may be reduced or eliminated if the City was unable to provide the affected Water System's services to its customers, or if large amounts of revenues were required to be applied to make extensive repairs to the affected Water System. Such a reduction or elimination of Net Revenues could impair the City's ability to make Installments Payments when due.

California is subject to spells of dry weather. Drought conditions in Southern California during the dry periods, combined with higher than average temperatures and Santa Ana winds, create conditions that are from time to time conducive to wildfires. For example, during the three days between October 20 and October 22, 2007, close to 20 separate wildfires started in seven counties in Southern California (Santa Barbara County, Ventura County, Los Angeles County, San Bernardino County, Orange County, Riverside County and San Diego County). Similarly, in November of 2008 wildfires burned along the freeway in the City. The City was not affected by the October 2007 or November 2008 fires. The northern edge of the City abutting the foothills is identified as an urban-open space interface area, which is subject to risk of wild fires. In these areas, additional conditions are imposed on developments to mitigate potential fire hazard. These conditions include: fuel modification plan to a depth of 170 feet surrounding the perimeter of developments, automatic fire sprinklers in all buildings, a minimum road width of 40 feet, hydrant spacing throughout the development, hydrant marker plan to ease visibility, restriction of cul-de-sac lengths, ignition resistant construction, and the proper selection of plant pallet. Also see "Water Supply," for a discussion regarding some of the direct effects of drought conditions on the operation revenues and expenses of the Water System.

Insurance

The City has covenanted in the Installment Sale Agreement to maintain standard comprehensive general insurance, but only in the event and to the extent available from reputable insurers at reasonable costs. The City may self-insure or participate in a joint powers agency or other program providing for such insurance. The Installment Sale Agreement further provides that amounts collected from insurance against accident to or destruction of any portion of the Water System will be used to repair, rebuild or replace such damaged or destroyed portion of the Water System, and to the extent not so applied, will be paid to the Trustee to prepay the 2014 Installment Payments or any Parity Debt. See "SECURITY FOR 2014 BONDS – Application of Insurance or Eminent Domain Proceeds." In the event of catastrophic losses to the Water System, there can be no assurance that the insurance proceeds would be adequate to prepay all of then outstanding Installment Payments and Parity Debt, or that losses in excess of the insured amount will not occur. See "WATER SYSTEM – Insurance."

Limitations on Remedies

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest and premium, if any, on the 2014 Bonds or to preserve the tax-exempt status of interest on the 2014 Bonds.

Bond Counsel has limited its opinions as to the enforceability of the 2014 Bonds and the Indenture and the Installment Sale Agreement to the extent that enforceability may be limited by

bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay in the exercise of, or limitations on or modifications to, the rights of the Owners.

Enforceability of the rights and remedies of the owners of the 2014 Bonds, and the obligations incurred by the Authority, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State.

Investment of Funds

The funds and accounts held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See "APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." All investments, including Permitted Investments, authorized by law from time to time for investments by the Authority contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture could have a material adverse effect on the security for the 2014 Bonds.

Constitutional Limitations (Proposition 218); Future Initiative and Legislation

Proposition 218, which added Articles XIIC and XIID to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Revenues in the amounts required by the Installment Purchase Agreement to pay the 2014 Installment Payments. Notwithstanding the foregoing, the City has covenanted to effect water service rate increases as needed for compliance with its rate covenant to the maximum extent permitted by law in compliance with Proposition 218. See "CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES."

Other initiative measures could be adopted, affecting the City's ability to generate revenues through property related fees, charges, taxes or otherwise, and to increase appropriations. No assurances can be given as to the potential impact of any future initiative or legislation on the finances and operations of the City.

Loss of Tax Exemption

Compliance by Authority and City. In order to maintain the exclusion of interest on the 2014 Bonds from gross income for federal income tax purposes, each of the Authority and the City has covenanted to comply with the applicable requirements of Section 148 and certain other sections of the Tax Code, as amended, relative to arbitrage and avoidance of characterization as private activity bonds, among other things. Interest on the 2014 Bonds could become includable in gross income for purposes of federal income taxation, retroactive to the date of issuance of the 2014 Bonds as a result of acts or omissions of the Authority or the City in violation of these covenants. See “CONCLUDING MATTERS – Tax Matters.”

Future Legislation or Court Decisions. Legislation affecting the tax exemption of interest on the 2014 Bonds may be considered by the United States Congress and the State legislature. Federal and state court proceedings and the outcome of such proceedings could also affect the tax exemption of interest on the 2014 Bonds. No assurance can be given that legislation enacted or proposed, or actions by a court, after the date of issuance of the 2014 Bonds will not have an adverse effect on the tax exemption of interest on the 2014 Bonds or the market value of the 2014 Bonds.

Secondary Market

There can be no assurance that there will be a secondary market for the 2014 Bonds, or if a secondary market exists, that the 2014 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES

Article XIII A and Article XIII B

Pursuant to California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged is a “special tax,” which under Article XIII A of the California Constitution must be authorized by a two-thirds vote of the electorate. This requirement may be applicable to rates for water and sewer service and capacity charges, to the extent that such rates and charges exceed the reasonable costs of providing service. In addition, the California courts have determined that fees imposed as a condition of approval of a development project, such as impact fees for water or sewer service, will not be special taxes if the fees approximate the reasonable cost of constructing the related improvements contemplated by the local agency imposing the fee. Such court determinations have been codified in California Government Code Section 66005.

On November 6, 1979, California voters approved Proposition 4, the “Gann Initiative,” which added Article XIII B to the California Constitution. Under Article XIII B, state and local governmental entities have an annual “appropriations limit” and are not permitted to spend

certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions, and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any tax year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Certain expenditures are excluded from the appropriations limit, including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by voters and payments required to comply with court or federal mandates which without discretion required an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The City believes that its rates and charges for water service do not exceed the costs the City reasonably bears in providing such service, and are presently in compliance with Article XIII A and Article XIII B.

Proposition 218: Article XIIC and Article XIID

General. On November 5, 1996, California voters approved Proposition 218, “the Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the California Constitution, providing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments, and property-related fees and charges. The City believes that it has complied with the requirements of Proposition 218 in all material respects with respect to the adoption of the City’s current charges for Water System services.

Article XIIC. Article XIIC provides that a local government may not impose, extend, or increase local taxes until such taxes are submitted to the electorate for approval. General taxes, imposed, extended, or increased for general governmental purposes of the city, require a majority vote and special taxes, imposed, extended, or increased for specific purposes, require a two-thirds vote. In addition, Article XIIC provides that the constitutional initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local taxes, assessments, fees, and charges. This provision with respect to the initiative power is not limited to taxes, assessments, fees, and charges imposed on or after November 6, 1996, the effective date of Proposition 218. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: “Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996 general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution.” Government Code Section 5854 appears to limit the voters’ power to repeal or reduce Water System fees and charges if such reduction would interfere with the City’s payment of Installment Payments. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

Article XIID. Article XIID imposes various procedural and substantive requirements on local governments that levy an “assessment,” “fee,” or “charge.” Article XIID defines “fees” or “charges” as “any levy other than an ad valorem tax, a special tax, or an assessment imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” “Property related service” means a public service having a direct relationship to property ownership (property ownership includes tenancies where tenants are directly liable to pay the fee or charge). In particular, a fee or charge (i) may not exceed the funds required to provide the property related service, (ii) may not be used for any purpose other than that for which the fee or charge was imposed, (iii) may not exceed the proportional cost of the service attributable to the parcel, (iv) may not be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and (v) may not be imposed for general governmental services.

In addition, before any property related fee or charge may be imposed or increased, the local government agency must provide mailed notice 45 days in advance of a hearing regarding the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the local government agency may not impose or increase the fee or charge. Moreover, except for fees or charges for water, wastewater, and refuse collection services (or fees for electrical and gas service, which are expressly exempted from Proposition 218), no property related fee or charge may be imposed or increased without a majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds approval by those residing in the affected area and voting at the election. Article XIID states that, beginning July 1, 1997, all fees or charges must comply with its provisions.

The ability of the City to comply with the covenants in the Installment Sale Agreement, including the rate covenant described under “SECURITY FOR 2014 BONDS – Rate Covenants,” in connection with the levy and collection of Water System service charges could be adversely affected by actions taken or not taken by voters, property owners or other persons obligated to pay Water System service charges.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIID of the California Constitution were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, further affecting the Water System revenues or the City’s ability to expend such revenues.

THE AUTHORITY

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of July 22, 2014 (the “Joint Powers Agreement”) by and between the City and the Industrial Development Authority of the City of Brea. The governing body of the Authority consists of the same individuals who comprise the City Council of the City. The Authority was created for the purpose of providing financing or refinancing for public capital improvements for its members through the acquisition by the Authority of such public capital improvements or the purchase by the Authority of local obligations within the meaning of the

Act. Under the Joint Exercise of Powers Act found in Chapter 5 of Division 7 of Title 1 of the California Government Code, the Authority has the power to issue bonds to finance and refinance the cost of certain public capital improvements.

CONCLUDING MATTERS

Absence of Litigation

To the Authority's and the City's knowledge, there is no litigation pending or threatened to restrain or enjoin the issuance, execution or delivery of the 2014 Bonds, to contest the validity of the 2014 Bonds or any proceedings of the City or the Authority with respect thereto. In the opinion of the Authority, there is no lawsuit or claim pending against the Authority that will materially impair the Authority's ability to enter into the Indenture or restrain or enjoin the collection of Revenues as contemplated therein. In the opinion of the City, there is no lawsuit or claim pending against the City that will materially impair the City's ability to enter into the Installment Sale Agreement or restrain or enjoin the collection of Net Revenues to pay Installment Payments as contemplated therein.

Continuing Disclosure

The City has undertaken in a continuing disclosure certificate (the "Continuing Disclosure Certificate") for the benefit of Owners and beneficial owners of the 2014 Bonds to provide certain financial information relating to the City and other data relating to the Water System by not later than nine months after the close of each fiscal year (which currently would be March 31, with the fiscal year ending on each June 30), commencing with the report for the 2014-15 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices will be filed by the City or The Bank of New York Mellon Trust Company, as the Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access ("EMMA") system. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." This undertaking has been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

A failure by the City to comply with the provisions of the Continuing Disclosure Certificate is not an event of default under the Indenture (although the Owners and beneficial owners of the 2014 Bonds do have remedies at law and in equity). However, a failure to comply with the provisions of the Continuing Disclosure Certificate must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2014 Bonds. Therefore, a failure by the City to comply with the provisions of the Continuing Disclosure Certificate may adversely affect the marketability of the 2014 Bonds on the secondary market.

In December 2013, the Successor Agency to the Brea Redevelopment Agency (the "Successor Agency") issued its \$96,620,000 aggregate principal amount Redevelopment Project AB 2013 Tax Allocation Refunding Bonds (the "2013 Successor Agency Bonds"). As described

in the Official Statement, dated November 1, 2014, as supplemented by a Supplement to Official Statement, dated December 4, 2013 (as supplemented, the “2013 Official Statement”), relating to the 2013 Successor Agency Bonds, the City serves as the Successor Agency pursuant California Health and Safety Code Section 34173, even though the City and the Successor Agency are separate legal entities. Before the printing of the 2013 Official Statement, an independent examination (the “2013 Examination”) was conducted in regards to the continuing disclosure filings during the previous five years by the former Brea Redevelopment Agency and the Successor Agency, as well as the City. The result of the 2013 Examination indicated a few instances of late filings and omission of certain materials required to be included in the continuing disclosure annual reports. Before the issuance the 2013 Successor Agency Bonds, the City took steps to cure the past failures identified by the 2013 Examination.

Before the printing of this Official Statement, Stifel, Nicolaus & Company, Incorporated, as the underwriter (the “Underwriter”), commissioned an independent examination (the “2014 Update”) of the continuing disclosure filings by the City since the completion of the 2013 Examination. As the result of the 2014 Update, it has come to the City’s attention that, with respect to a series of bonds issued by the former Brea Redevelopment Agency in 2011 (the “2011A RDA Bonds”), two separate webpages on EMMA were created, with one webpage for the sole maturity of the 2011A RDA Bonds consisting of current interest bonds, and the other webpage for the other maturities of the 2011A RDA Bonds consisting of capital appreciation bonds. Even though the City, as the Successor Agency, filed the fiscal year 2012-13 annual report required by the continuing disclosure undertakings for the 2011A RDA Bonds on a timely basis, the report appeared as a link on only one of the related EMMA webpages and not the other. The City cannot make any guarantees regarding the MSRB’s organization or presentation of information posted on EMMA. Nonetheless, the City has now uploaded the fiscal year 2012-13 annual report again, so that there is also a link to it on the second EMMA webpage for the 2011A RDA Bonds. The City plans to take steps to ensure that applicable filings will appear on both webpages in the future. Except as noted above, the 2014 Update indicated that the City complied with its continuing disclosure obligations in all material respects during the period reviewed.

Legal Matters

All of the legal proceedings in connection with the authorization and issuance of the 2014 Bonds are subject to the approval of Jones Hall, A Professional Corporation, Bond Counsel. Bond Counsel’s final approving opinion with respect to the 2014 Bonds will be substantially in the form set forth in Appendix E of this Official Statement. Certain matters with respect to this Official Statement will be considered on behalf of the Authority and the City by Richards, Watson & Gershon, A Professional Corporation, in its capacity as Disclosure Counsel. Certain legal matters will also be passed upon for the Authority and the City by Richards, Watson & Gershon, in its capacity as Authority General Counsel and City Attorney. Certain legal matters will also be passed upon for the Underwriter, by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Underwriter’s Counsel. Payment of the fees of Bond Counsel, Disclosure Counsel and Underwriter’s Counsel is contingent upon issuance of the 2014 Bonds.

Tax Matters

General. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2014 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in this paragraph are subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986 (the “Tax Code”) that must be satisfied subsequent to the issuance of the 2014 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City and the Authority have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2014 Bonds.

California Tax Status. In the opinion of Bond Counsel, interest on the 2014 Bonds is exempt from California personal income taxes.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a 2014 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2014 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2014 Bonds on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2014 Bond to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2014 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2014 Bonds who purchase the 2014 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2014 Bond (said term being the shorter of the 2014 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2014 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2014 Bond is amortized each year over the term to maturity of the 2014 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2014 Bond premium is not deductible for federal income tax purposes. Owners of Premium 2014 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

Form of Bond Counsel Opinion. At the time of issuance of the 2014 Bonds, Bond Counsel expects to deliver an opinion for the 2014 Bonds in substantially the form set forth in Appendix E.

Other Tax Considerations. Owners of the 2014 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2014 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2014 Bonds other than as expressly described above.

To ensure compliance with the requirements imposed by the Internal Revenue Service, purchasers and Owners of the 2014 Bonds should be aware that any federal income tax advice contained in this Official Statement (including the Appendices hereto) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Tax Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed in this Official Statement.

Financial Advisor

The Authority and the City have retained Fieldman, Rolapp & Associates, Irvine, California, to serve as financial advisor (the "Financial Advisor") in connection with the authorization, issuance, sale and delivery of the 2014 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor is an independent registered municipal advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

Underwriting

Pursuant to a bond purchase agreement (the "Purchase Agreement"), Stifel, Nicolaus & Company, Incorporated, the Underwriter, has agreed, subject to certain conditions, to purchase the 2014 Bonds at a purchase price of \$20,626,987.47 (which is equal to the principal amount of the 2014 Bonds, plus a net original issue premium of \$2,174,709.55, and less an Underwriter's discount of \$102,722.08). The Purchase Agreement provides that the Underwriter will purchase

all of the 2014 Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Purchase Agreement. The Underwriter intends to offer the 2014 Bonds to the public initially at the prices set forth on the inside cover of this Official Statement, which prices may subsequently change without any requirement of prior notice.

Rating

Standard & Poor's ("S&P") has assigned a rating of "AA-" to the 2014 Bonds. The rating assigned by the rating agency reflects only the views of such organization and any desired explanation of the significance of such rating may be obtained from S&P. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely, if in S&P's judgment, circumstances so warrant. Other than as described in the Continuing Disclosure Certificate, the City and the Authority take no responsibility regarding either to bring to the attention of the Owners of the 2014 Bonds any revision or withdrawal of either such rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the 2014 Bonds.

Miscellaneous

All of the preceding description and summaries of the 2014 Bonds, the Indenture, the Installment Sale Agreement, other applicable agreements, legislation and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the 2014 Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Authority and the City have duly authorized the execution and delivery of this Official Statement by their respective officers.

BREA COMMUNITY BENEFIT FINANCING
AUTHORITY

By: /s/ Tim O'Donnell
Executive Director

CITY OF BREA

By: /s/ Tim O'Donnell
City Manager

APPENDIX A

SUPPLEMENTAL INFORMATION ABOUT CITY OF BREA

This Appendix is included solely to provide background and demographic information regarding the City. The City's obligation to pay 2014 Installment Payments is a special obligation limited solely to the Net Revenues of the Water System. No other funds or property of the City shall be liable for the payment of the 2014 Installment Payments or any other amounts payable under the Installment Sale Agreement and the Indenture.

Geography

The City encompasses 11.2 square miles and is located at the northern end of Orange County (the "County"), just south of the Los Angeles County line. It is approximately 25 miles southeast of downtown Los Angeles, 15 miles north of Santa Ana, the County Seat, and 22 miles inland of the Pacific Ocean. Neighboring communities include Fullerton, Placentia, La Habra and Yorba Linda.

Municipal Government

The City, a general law city, was incorporated in 1917, the eighth city in the County. The City has a Council-Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of City business and the coordination of all departments of the City. The City Council is composed of five members elected every two years at large to four-year alternating terms. The Mayor is selected by the City Council from among its members. As of June 11, 2014, the City has approximately 288 full-time employees.

The current members of the City Council are as follows:

Name and Office	Current Term Expires
Brett Murdock, <i>Mayor</i>	November 2014
Christine Marick, <i>Mayor Pro Tem</i>	November 2016
Ron Garcia, <i>Council Member</i>	November 2014
Roy Moore, <i>Council Member</i>	November 2014
Marty Simonoff, <i>Council Member</i>	November 2016

Population

The following table shows the estimated population growth for the City, the County and the State of California for the years shown.

City of Brea City, County and State Population Growth⁽¹⁾ Calendar Years 1980, 1990, 2000, 2010-2014

Calendar Year	City of Brea	% Change from Prior Period	County of Orange	% Change from Prior Period	State of California	% Change from Prior Period
1980	27,910	51.30% ⁽²⁾	1,932,708	35.99% ⁽²⁾	23,782,000	18.68% ⁽²⁾
1990	32,950	18.06	2,398,400	24.10	29,558,000	24.29
2000	35,176	6.76	2,831,799	18.07	33,721,583	14.09
2010	39,279	11.66	3,008,855	6.25	37,223,900	10.39
2011	40,065	2.00	3,029,859	0.70	37,510,766	0.77
2012	40,960	2.20	3,057,879	0.90	37,668,804	0.40
2013	41,394	1.10	3,081,804	1.10	37,966,471	0.80
2014	42,397	2.55	3,113,991	0.93	38,340,074	0.94

(1) As of January 1 of each year.

(2) Percent change since 1970.

Source: State of California Department of Finance.

City's Taxable Valuation

The following is a table showing the City's taxable valuation for the fiscal years shown. These figures are presented for historical comparison, with reference only to the time frame of the years shown.

City of Brea Assessed Values of All Taxable Property Fiscal Years 2009-10 through 2013-14

Fiscal Year	Secured Value	State Assessed	Unsecured Value	Total Assessed Value	Percent Change
2009-10	6,472,516,828	1,085,173	505,479,661	6,979,081,662	(0.88)%
2010-11	6,510,286,342	623,883	514,281,949	7,025,192,174	0.66
2011-12	6,495,653,680	499,208	485,629,051	6,981,781,939	(0.62)
2012-13	6,711,303,407	1,352,984	467,118,551	7,179,774,942	2.84
2013-14	6,970,889,698	573,260	509,185,360	7,480,648,318	4.19

Source: City of Brea, based on information provided by the Orange County Auditor-Controller Office.

Tax Levies and Delinquencies

The Orange County Tax Collector collects secured tax levies for each fiscal year representing taxes levied for each fiscal year on taxable real and personal property that is situated in the County as of the preceding January 1. Annual property tax bills are mailed each year by November 1. The first installment of the secured tax levy is due November 1 and the second installment is due February 1, but the entire bill may be paid when paying the first installment. If

the first installment of the property tax bill is not paid by 5:00 p.m. on December 10, then the taxes becomes delinquent and a ten percent delinquent penalty is added to the amount due. If the second installment of the property tax bill is not paid by 5:00 p.m. on April 10, then it becomes delinquent and a ten percent delinquent penalty is added to the amount due and an administrative charge of \$10 is added. Unsecured taxes become delinquent on August 31.

Property owners who fail to pay either or both installments by June 30, will have their properties tax defaulted. A redemption fee is added to the amount due and monthly interest starts to accrue on the amount of the unpaid taxes. Properties may be redeemed under an installment plan of redemption that allows property owners to make payments on defaulted taxes over a five-year period. To open an installment plan, the property owner must pay a set up fee to initiate the plan, pay any current year's taxes and penalties that may be due, plus provide an initial payment of the redemption amount. Monthly interest accrues on the unpaid balance once the account has been opened. If no payments have been made on delinquent taxes at the end of the five fiscal years, the property is deeded to the State. Such properties then become subject to the County Tax Collector's power of sale as provided by law.

Construction Activity

The number of construction permits issued in the City and the related values during fiscal years 2009-10 through 2013-14 are shown below.

City of Brea
Construction Permits
Fiscal Years 2009-10 through 2013-14

<u>Fiscal Year</u>	<u>Permits Issued</u>	<u>Percent Change</u>	<u>Estimated Valuation</u>	<u>Percent Change</u>
2009-10	578	133.0	\$23,712,280	(47.7)
2010-11	853	47.6	39,598,320	66.9
2011-12	876	2.7	75,539,683	90.7
2012-13	1,274	47.7	79,030,910	4.6
2013-14	1,418	11.3	72,226,772	(8.6)

Source: City of Brea Development Services Department.

The fluctuation in building permits issued reflects large scale tract development which is cyclical and, given the City's size (approximately 11 square miles), occurs intermittently.

Employment

According to the State of California Employment Development Department, the June 2014 preliminary, estimated unemployment rate for the City was 3.5 percent, and that for the County was 5.2 percent. The following table shows certain employment statistics for the City and the County for calendar years 2003 through 2013.

City of Brea
City and County Employment Statistics
Calendar Years 2003 through 2013⁽¹⁾

Year	City		County	
	Labor Force	Employed	Unemployment Rate	Unemployment Rate
2003	21,000	20,300	3.2%	4.8%
2004	21,200	20,600	2.9	4.3
2005	21,500	21,000	2.5	3.8
2006	21,800	21,300	2.3	3.4
2007	21,900	21,300	2.6	3.9
2008	22,000	21,200	3.6	5.3
2009	21,100	19,800	6.2	9.0
2010	20,900	19,500	6.6	9.6
2011	21,200	20,000	6.0	8.8
2012	21,600	20,500	5.2	7.6
2013	21,600	20,700	4.2	6.2

(1) Not seasonally adjusted.

Source: State of California, Employment Development Department.

The following table lists the major employers within the City and their estimated number of employees.

City of Brea
Top Ten Employers
as of the end of Fiscal Year 2013-14

Company	Product or Service	No. of Employees
Bank of America	financial services	1,500
Mercury Insurance Group	insurance services	1,500
Beckmans Coulter, Inc.	manufacturing - biomedical instruments	1,200
Kirkhill - TA Company	manufacturing - aircraft parts	700
Albertson's, Inc.	retail – grocer	680
Brea Olinda Unified School District	public agency	630
Nordstrom Department Store	Retail – department store	475
Veterinary Pet Insurance Co.	insurance services	400
Bristol Industries	manufacturing - aircraft parts	400
Peterson Brothers Construction	construction	300

Source: City of Brea.

The following table summarizes the civilian labor force in the County (for the calendar years 2008 through 2012). These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

Orange County
Annual Average Employment by Industry⁽¹⁾
Calendar Years 2008 through 2012

Industry	2008	2009	2010	2011	2012
Private, non-farm					
<i>Goods producing:</i>					
Mining and logging	600	500	500	500	500
Construction	91,200	74,200	68,000	69,200	71,300
Manufacturing – durable goods	122,500	109,100	106,500	110,700	114,000
Manufacturing – non-durable goods	51,500	45,700	43,900	43,500	43,800
<i>Service providing:</i>					
Wholesale trade	86,700	79,400	77,600	77,000	76,700
Retail trade	155,600	142,300	140,100	140,900	142,200
Transport., warehousing and utilities	29,300	27,800	26,700	27,500	27,700
Information	30,100	27,300	24,800	23,800	24,200
Financial activities	113,100	105,100	103,500	104,700	108,100
Professional and business services	266,600	240,200	243,500	245,700	255,900
Educational and health services	150,700	152,100	155,500	158,800	163,400
Leisure and hospitality	176,400	169,100	168,600	174,000	180,500
Other services	<u>46,500</u>	<u>42,600</u>	<u>42,200</u>	<u>43,200</u>	<u>44,300</u>
Subtotal	<u>1,320,800</u>	<u>1,215,400</u>	<u>1,201,400</u>	<u>1,219,500</u>	<u>1,252,600</u>
Government	160,800	156,600	152,300	149,300	147,800
Farm	4,600	3,800	3,700	3,200	2,700
Total	<u>1,486,200</u>	<u>1,375,800</u>	<u>1,357,400</u>	<u>1,372,000</u>	<u>1,403,100</u>

(1) Employment reported by place of work; does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add due to rounding. Based on March 2012 benchmark. Not seasonally adjusted. Source: State of California, Employment Development Department.

Per Capita Personal Income

The following table shows the annual per capita personal income for the County, the State and the United States from 2009 through 2013.

Orange County, California and the United States
Per Capita Personal Income⁽¹⁾
Calendar Years 2009 through 2013

Year	County	State	U.S.
2009	\$48,841	\$41,569	\$39,357
2010	48,769	42,297	40,163
2011	50,642	44,666	42,298
2012	52,342	46,477	43,735
2013	N/A	47,401	44,543

(1) Per capita personal income is the total personal income divided by the total midyear population estimates of the U.S. Bureau of the Census. Estimates reflect county population estimates available as of March 2013. Source: U.S. Department of Commerce, Bureau of Economic Analysis

Commercial Activity

The following table summarizes the annual volume of taxable transactions within the City for calendar years shown.

**City of Brea
Taxable Transactions
Calendar Years 2008 through 2012
(in Thousands of Dollars)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Retail Outlets					
Clothing and clothing accessories stores	\$213,230	\$249,826	\$257,464	\$273,813	\$287,305
Motor vehicle and parts dealers	23,237	22,297	23,480	25,799	27,935
Home furn. and appliances	53,183	48,640	48,311	49,616	51,740
Bldg matrl and garden equip and supplies	139,421	105,627	133,565	114,063	106,278
Food and beverage stores	27,756	33,259	36,350	39,974	41,187
Gasoline stations	86,783	63,230	79,229	97,613	102,184
General merchandise stores	233,411	182,847	200,908	206,210	203,886
Food services & drinking places	166,689	152,971	159,038	177,864	196,966
Other retail group	195,606	129,630	130,302	141,643	148,812
Subtotal⁽¹⁾	<u>1,139,316</u>	<u>988,327</u>	<u>1,068,647</u>	<u>1,126,594</u>	<u>1,166,290</u>
All Other Outlets	<u>421,264</u>	<u>381,178</u>	<u>401,147</u>	<u>445,635</u>	<u>469,349</u>
All Outlets⁽¹⁾	<u>\$1,560,580</u>	<u>\$1,369,505</u>	<u>\$1,469,795</u>	<u>\$1,572,228</u>	<u>\$1,635,639</u>

(1) Detail may not compute to total due to rounding.

Source: Compiled from data published by State of California Board of Equalization.

Transportation

The City is well served by area transportation routes. The Orange Freeway (State Highway 57), a major north-south corridor, crosses centrally through the City. The City is also within minutes of the Pomona Freeway (State Route 60), the Riverside Freeway (State Route 91) and the Santa Ana Freeway (Interstate 5). The City is close to several airports: Orange County Airport (17 miles from the City), Ontario Airport (25 miles from the City) and LAX (48 miles from the City). An Amtrak/Metrolink station located approximately five miles from the City provides passenger rail access. The Orange County Transportation Authority operates a regional bus system with routes that serves the City and other areas throughout the County.

Public Utilities

Electrical service is provided by Southern California Edison. Southern California Gas provides natural gas.

Water services are provided by the City's Water Department. The City's drinking water is a 50-50 blend of surface water imported by the Metropolitan Water District of Southern California and ground water imported from California Domestic Water Company in Whittier. Metropolitan's imported water sources are the Colorado River and the State Water Project,

which draws water from the San Francisco-San Joaquin Bay Delta. California Domestic water originates from the San Gabriel Basin.

Sewer services are provided by the City's Maintenance Services Department, which maintains over 108 miles of sewer main lines. The sewer distribution system flows into Orange County Sanitation District trunk system until it is treated at their secondary treatment facility in Fountain Valley. Trash collection services are provided by the City through Brea Disposal, a private contractor.

Education

The City's students are served by the Brea Olinda Unified School District presided over by a separately elected board. The system includes six elementary schools, one junior high school, one high school and one alternative high school. Brea-Olinda High School has a professional performing arts center and complete athletic facilities. The City also has several private pre-schools, two Christian schools and a Roman Catholic school serving grades K-8. Colleges, universities and a number of technical and vocational schools are located in and around Brea. California State University, Fullerton College, Pacific Christian College, Hope University, an optometry school and a law school are located in nearby Fullerton, and the University of California at Irvine, Chapman College, and Cal Poly Pomona are within easy freeway access.

Community Facilities

St. Jude Medical Center in Fullerton and Placentia-Linda Hospital in Placentia are full-service hospitals that are located within five miles of the City.

The City maintains parks and recreation facilities within its boundaries. The Brea Community Services Department coordinates park activities and the City owns Brea Creek Golf Course, operated by the Chapman Investment Company in partnership with Billy Casper Golf.

The City has senior and family resource center operated by the City with participation by charitable, non-profit corporations.

Public Safety

Law enforcement services are provided by the Brea Police Department which provides full services to the City. Fire services are provided by the Brea Fire Services Department, which has three fire stations and one annex located throughout the City.

Street and highway maintenance is provided for under the supervision of the City's Maintenance Services Department.

Building inspection and code enforcement services are provided by the City.

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APPENDIX B

**CITY OF BREA COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR YEAR ENDED JUNE 30, 2013**

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CITY OF BREA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL PERIOD ENDED JUNE 30, 2013

PREPARED BY:
ADMINISTRATIVE SERVICES DEPARTMENT

WILLIAM GALLARDO
ADMINISTRATIVE SERVICES DIRECTOR

LEE SQUIRE
FINANCIAL SERVICES MANAGER

CITY OF BREA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2013

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CITY OF BREA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF BREA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 JUNE 30, 2013

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December 23, 2013

Honorable Mayor, Members of the City Council, and Citizens of the City of Brea:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Brea for the Fiscal Year ended June 30, 2013. This report is published in accordance with local ordinance and state law requirements that financial statements be presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Brea. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Brea has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Brea's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Brea's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City of Brea. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Lance, Soll & Lunghard, LLP, a firm of licensed certified public accountants, has audited the City of Brea's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Brea for the Fiscal Year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded that there was a reasonable basis for rendering an unmodified opinion that the City of Brea's financial statements for the Fiscal Year ended June 30, 2013, are fairly presented in all material respects in conformity with accounting principles generally accepted in the United States of America. The independent auditors' report is presented as the first component of the financial section of this report.

The City of Brea is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's Circular A-133, Audits of State and Local Governments. Information related to this single audit, including a schedule of expenditures of federal awards assistance, the independent auditors' reports on the internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs is available in the City of Brea's separately issued Single Audit Report.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Brea's MD&A can be found immediately following the report of the independent auditors.

CITY OF BREa PROFILE

The City of Brea, a diverse residential and business community is located at the most northern tip of Orange County at the juncture of three counties with access to major airports, popular regional attractions, beaches, deserts and mountains. Nestled among the hillsides, just 25 miles southeast of Los Angeles, Brea is home to more than 40,000 residents and hosts a daytime working population of more than 100,000.

The long-term economic condition and outlook of Brea and Orange County is trending upward. The City is a major retail center featuring the county's fourth largest shopping center, the Brea Mall; the Brea Union Plaza; Brea's Downtown; and a host of other retail and service businesses. Brea is also a center for big businesses such as Albertson Market Distribution Center, Bank of America, Beckman-Coulter, Bristol Industries, Esterline Kirckhill, Evangelical Christian Credit Union, Kaiser Permanente, Kindred Hospital, Nature's Best, Veterinary Pet Insurance Company. Several companies' corporate headquarters are located within Brea, including American Suzuki, Krystal Infinity, Mercury Insurance, Nestle Waters/Arrowhead Water, Avery-Dennison Office Products, and Harte-Hanks Publishing. Although Brea is a major retail and business hub, it maintains a balance with nature, preserving its hillside and canyon areas, which also contribute to Brea's quality of life. Brea is home to one of the nation's largest outdoor sculpture collections, with 156 pieces of sculpture created to date, an art gallery and a performing arts theatre. Brea has long been recognized for its vision and innovation. It possesses a focused economic development strategy, designed to ensure a well balanced, economically viable community which includes a wide range of housing, beautiful parks and excellent schools.

Brea provides an excellent portfolio of responsive municipal services. The City operates as a "full service city," providing a full range of services including police and fire protection, water and sanitation services, construction and maintenance of streets and infrastructure, recreational and cultural services. Besides serving its own residential and business customers, Brea has a tradition of entrepreneurial ventures providing services to numerous other public agencies such as police, information technology, printing and public information.

The City of Brea operates under the Council-Manager form of government, and is governed by a five member City Council elected at large, serving staggered four-year terms. Council elections are held in November of even-numbered years in conjunction with statewide general elections.

The annual budget serves as the foundation for the City of Brea's financial planning and control. The budget is adopted on an annual basis by the City Council in June of each year. The budget team, with the approval of the City Manager, develops budget guidelines in January. The various City departments then submit revenue estimates and expenditure appropriation requests for the one-year period that begins July 1. Departmental hearings are held with each department, which leads to the development of the proposed budget. The City Manager then presents the proposed budget document to the City Council, which is discussed with the City Council in public workshops in mid-May. Formal public hearings are held in early June. The City Council adopts the annual budget on or before June 30 of each year. At the conclusion of the first six months, the budget team prepares a report of the progress of the first half of the budget cycle. The City Manager formally reviews the report with the City Council. The City Council adopts mid-term budget modifications as required. The level of budgetary control is established at the department level within the General Fund and at the fund level of all other funds.

LOCAL ECONOMIC FACTORS

Brea's physical setting encompasses about 7,955 acres or 12.43 square miles of land. Brea's land use is distributed as follows:

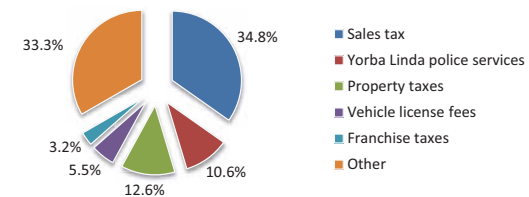
LAND USE DISTRIBUTION

Land Use Distribution	Percent
Residential (single-family, multi-family, and mobile homes)	26%
Commercial and Office	5
Industrial	12
Parks and Open Space	14
Public Facilities (City facilities, schools, drainage channels, and fire stations)	4
Carbon Canyon Hillsides Areas and Vacant Lands	21
Agriculture	1
Vacant	2
Other (streets)	15
Total	100%

Source: City of Brea General Plan (2003)

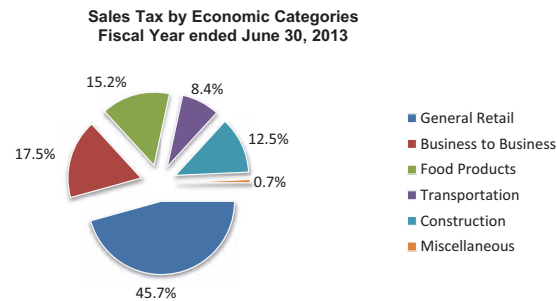
The current land use mix produces General Fund revenues of approximately \$55 million. The top five revenue sources include sales tax, charges for providing police services to City of Yorba Linda, property taxes, vehicle license taxes, and franchise taxes. These revenue sources account for 66.7% of the total amount of General Fund revenues. The remaining revenues account for 33.3% of the total, and are represented by a broad range of sources.

**General Fund Revenues by Revenue Source
Fiscal Year Ended June 30, 2013**



Sales Tax: Sales tax represents the single largest source of General Fund revenue at \$19 million. It is derived from six major economic categories as listed in the chart on the following page. The retail category, including department stores, apparel stores and general merchandise, makes up 45.7% of the total sales tax generated. This sector includes the regional Brea Mall, which is the fourth largest mall in sales tax volume in Orange County. The second largest economic sector is the business-to-business category at 17.5%. During Fiscal Year 2012-13, the City's sales tax consultant MuniServices reported that the sales tax receipts grew and improved every quarter throughout the State. In the final quarter of Fiscal Year 2012-13, Brea experienced a 7.0% increase in sales tax compared to the final quarter of Fiscal Year 2011-12.

Overall, Brea's sales tax on a per capita basis consistently outperforms other municipalities, a strong indicator that the City imports sales tax dollars from surrounding communities.



Charges for Police Services: Beginning in 1970, the adjacent City of Yorba Linda entered into a contract with the City of Brea for law enforcement services. In FY 2012-13, this contractual relationship ended. Around the clock patrol services, traffic officer services, investigation services, patrol and investigative supervision, and non-sworn community service officer services were provided to this city of over 68,000 people up until the contract expired on January 5, 2013.

The City of Brea received \$5.8 million in Fiscal Year 2012-13 from the City of Yorba Linda for police services. Both cities received a significant financial benefit from this contractual relationship, as the cost of one agency providing services to two cities is significantly less than the cost of operating two separate departments.

Property Taxes: Brea is a very diverse community as previously indicated in the land use chart. General Fund property taxes represent \$6.9 million or 12.6% of General Fund revenues. Assessed valuation of all property (including the former Brea Redevelopment Agency) in Brea is \$7.6 billion, a slight increase of 3% over the prior fiscal year. The valuation is split between residential at 50.8%, commercial/industrial at 36.8%, and the remaining 12.4% for other miscellaneous uses. Of the City's 15,365 dwelling units, 65% are single-family units, 28% are multi-family units and 7% are mobile homes. Housing costs in Brea continue to rank among the highest in North Orange County. Brea, like other cities in Orange County, is experiencing an increase in housing prices. The median price of a single-family home significantly increased from \$477,500 to \$582,250 in Brea from the prior fiscal year.

Vehicle License Fees (VLF): When a vehicle is registered in California, a license fee is charged by the State of California. This fee includes a small administrative fee and a property tax in lieu fee. The in lieu fee is based on depreciated value of the vehicle and declines over the useful life of the vehicle. The in lieu fee, while collected by the State Department of Motor Vehicles, belongs to local government (cities and counties). It is allocated based on a per capita basis.

Beginning in January 2005, the Vehicle License Fee was permanently reduced to 0.65% from 2.0% of the vehicle's fair market value. Any loss to cities by this rate reduction will be made up, dollar for dollar, with an allocation from the County's Educational Revenue Augmentation Fund (ERAF) account with two payments, due on or before January 31st and May 1st of each year. This allocation will grow with any corresponding growth in the City's secured property tax valuation.

Franchise Taxes: The franchise revenue accrues to the City based on adopted City ordinances and

contractual agreements. Public utilities (electric and gas) account for 45.8% of the \$1.7 million in annual franchise tax revenue. The remaining 54.2% of this revenue includes franchise fees for oil pipelines, cable television, and other non-city utilities.

Franchise Taxes
Fiscal Year Ended June 30, 2013

	Annual Revenue	Percent of Total
Public Utilities	\$ 775,319	45.8%
All Others	918,645	54.2%
Totals	\$ 1,693,964	100.0%

ECONOMIC OUTLOOK

The City Council and staff have taken proactive measures, rather than reactive, to weather through these tough economic times. Brea's excellent financial condition is not only the result of the City's efforts during Fiscal Year 2012-13, but the result of fiscally conservative organizational decisions made over the past five years, which include City-wide reorganization, increasing employee retirement contributions, and other reductions, all of which total nearly \$7 million in savings since Fiscal Year 2007-08.

Despite overcoming past budget woes, the City of Brea continues to face ongoing challenges. In Fiscal Year 2012-13 City staff met on two occasions with the State Department of Finance (DOF), due to various discrepancies on their interpretation of how the Successor Agency to the former Brea Redevelopment Agency is allowed to spend its available bond proceeds. The City is not in agreement with the DOF in regard to the City's Recognized Obligation Payment Schedule (ROPS), and the use of bond proceeds for the "Tracks at Brea" project. This east-west connector using the former railroad right of way is an important addition to the City's trail system. The City firmly believes the use of former Brea Redevelopment bond proceeds is an allowable use. The City will continue to press this issue with the DOF in FY 2013-14.

On January 5, 2013, the 42 year police services contract with the City of Yorba Linda was terminated and the Police Department is engaged in fully transitioning to a "Brea Only" police department. This transition period is expected to take between 18-24 months.

Overall, Fiscal Year 2013-14 budget is balanced due to a solid foundation of fiscally conservative practices combined with one time solutions, increased employee contributions to their retirement and tough strategic decisions. Revenues for Fiscal Year 2013-14 are projected to be slightly lower due to the elimination of the Yorba Linda Police Services Contract.

It is important to understand why the City of Brea (and all local government) is impacted from a stabilizing economy. The primary funding source for City operations such as Police, Fire, and Community Services, is the City's General Fund. Unlike the State Government, the City does not exert control over the two primary sources of revenue for the General Fund - property taxes and sales taxes. The State legislature and the Governor are, as usual, looking to local government revenues to help balance their budget.

The following regional factors, along with the State and National economic issues, will continue to have a negative impact on Brea's revenues and expenditures:

- An anticipated slow recovery from the economic recession will impact sales tax revenues, transient occupancy tax, business license tax, and interest earnings
- The State budget crisis which puts City revenues at risk of being “borrowed” to help solve Sacramento’s fiscal problems
- The fiscal losses of the Public Employees’ Retirement System will be passed to cities in the form of higher costs for retirement in future budgets.

It is expected that these factors will continue to have a negative impact on the City’s revenues for many years. Therefore, other costs such as energy, water, and equipment are being diligently managed in an effort to minimize the need for additional service reductions. Going forward, during Fiscal Year 2013-14, City staff will continue to be diligent in monitoring economic factors and seek additional budget solutions to structurally balance the budget.

Locally, geographic and socio-economic conditions in Orange County and the City of Brea remain desirable. Property values in the region are projected to slightly increase, and the City’s tax base is expected to continue its favorable trend for the foreseeable future. Brea’s assessed valuation for Fiscal Year 2012-13 increased by 3% from the prior year. Brea’s sales tax of \$19 million in Fiscal Year 2012-13 remains relatively the same, compared to the prior fiscal year. Based on economic data trends and projections, sales tax is projected to increase 3.8% for Fiscal Year 2013-14 compared to Fiscal Year 2012-13.

Highlights for the State of California from the UCLA Anderson Forecast on December 6, 2013 include the following:

- California’s economic picture remains split between the coastal and inland areas. Along the coast, from Marin to San Diego, employment gains are outpacing the nation. But a look inland shows a different picture with regions like East Bay and San Joaquin Valley showing little to negative growth.
- Overall, the State will see employment growth of 1.5% in 2014 and 2% in 2015.
- In 2014, the unemployment rate is forecasted to drop to 8.2% on average, over one percentage point higher than the U.S. forecast and then to 7.3%.
- Real personal income growth will be 3.2% in 2014 and 3.1% in 2015.

On the national front, if the federal government does no harm, growth in the economy will be sparked by strength in the housing and automobile sectors, combined with increased business spending and an end to the dramatic drop in federal purchases. Taken together, these factors are expected to put the economy on track to a 3% growth path by midyear 2014 and bring the unemployment rate down to 6% by year end 2015. Policy interest rates will stay low throughout 2014, but with inflation rising to slightly above 2%, it is expected that the zero interest rate policy of the federal government will come to an end in the spring of 2015.

LONG-TERM FINANCIAL PLANNING

Brea Engagement & Strategy Team (formally known as Budget Strategic Planning): Representatives from all City departments began meeting since late 2005 to discuss budget strategic planning issues. Over 40 City staff members work collaboratively on an ongoing basis. Originally, these meetings focused on identifying and evaluating changing City needs, a significant amount of which is spurred by future development. Likewise, in years past this included identification of capital project needs across all departments, as well as associated staffing and supplies needs which are anticipated for those projects. Additionally, staff explored various revenue generating options. In Fiscal Year 2009-10, the focus shifted to tackling economic impacts to the City’s budget, including state revenue takeaways and revenue deferrals. The financial decisions reached as a result of the City’s collaborative budget strategic planning process are reflected in the Fiscal Year 2012-13 financials. The Brea Engagement & Strategy Team (BEST) group implemented previously recommended stop-gap measures including expenditure reductions, revenue enhancements, and also which City needs would remain unmet. The BEST group continues to meet to focus on addressing the structural changes to the budget necessary to sustain the City over the course of the next several fiscal years and beyond.

Capital Improvement Program (CIP) Budget: The goal of the seven-year CIP is to enhance the quality of life in the community, ensure a safe environment and to promote transportation improvement in the City. The CIP for Fiscal Year 2012-13, the first one of the seven years, reflects the City Council’s commitment to this goal by enhancing existing infrastructure and providing new infrastructure to aid in service delivery to the community. The remaining six years of the CIP are not a commitment of actual funds, but rather a long-range planning tool for subsequent investments in the City’s infrastructure. The CIP is divided into seven categories: downtown, streets, traffic safety enhancements, water, storm drain, sewer, and facility improvements.

Community Center Reserves: Funds are set aside annually for the future replacement of the Community Center facility and equipment. Ongoing review of facility and equipment needs allows the City to manage and plan for expenditures in a more proactive manner. The balance in Community Center Reserves at June 30, 2013 was \$667,696.

Capital Asset Reserves: Funds are set aside annually for the replacement of City-owned infrastructure, facilities and capital assets. In addition to a fixed annual contribution, an assessment is made at the end of each fiscal year to determine whether an additional contribution can be made based upon a review of General Fund excess revenues over expenditures. The balance in Capital Asset Reserves at June 30, 2013 was \$7,496,895.

Relevant Financial Policies

Termination of City of Yorba Linda Police Services Contract

On January 5, 2013, the 42 year police services contractual relationship with the City of Yorba Linda was terminated. Brea provided the City of Yorba Linda around the clock patrol services, traffic officer services, investigation services, patrol and investigation supervision and non-sworn community service officer services up until the contract was terminated. Both cities received a significant financial benefit from this contractual relationship, as the cost of one agency providing services to two cities is significantly less than the cost of operating two separate departments. One outcome of this significant restructuring is the loss of 40 police officers and the police department is fully engaged in transitioning to a “Brea-Only” police department. The transition period is anticipated to take 18-24 months.

Major Initiatives

Pension Reform

Starting in Fiscal Year 2011-12, the City of Brea began the first year of pension reform for both safety and non-safety employees by requiring employees to contribute toward their retirement and instituting a second retirement tier for new employees.

Safety employees hired prior to July 1, 2011 began to pay toward their retirement costs over the term of the bargaining unit memorandums of understanding (MOUs) in two steps; on July 1, 2011, they began to pay 2.25% of salary; plus an additional 2.25% of salary on July 1, 2012, for a total of 4.5% of their base pay toward their retirement costs. Safety employees hired after July 1, 2011 will contribute 9% of their base pay toward their retirement. In addition, the MOUs for sworn safety employees that include fire, police and police management contain provisions to change the retirement formula from the 3% @ age 50 CalPERS formula to the 2% @ age 50 CalPERS retirement formula for employees hired between July 1, 2011 to December 31, 2012. Sworn safety employees hired on or after January 1, 2013, as required by State law (AB340), will be enrolled in a CalPERS retirement formula of 2.7% at age 57.

Non-safety employees also began to contribute toward their retirement in two steps; on July 1, 2011, they began to pay 1.125% of salary plus an additional 1.125% of salary on July 1, 2012, for a total of 2.25% of their base pay over the term of the bargaining unit memorandums of understanding (MOUs). Non-safety employees hired after July 1, 2011 will contribute 7% of their base pay toward their retirement. In addition, AB340 changed the CalPERS retirement formula for miscellaneous employees from 2% @ age 55 to 2% @ age 62 for miscellaneous employees hired on or after January 1, 2013.

Starting in Fiscal Year 2011-12 and through Fiscal Year 2012-13, the total employee contributions were expected to be \$1.4 million. In addition, the implementation of a multi-tiered retirement system is a long-term savings measure whereby savings are not fully realized for many years in the future.

Olinda Alpha Landfill Agreement

In July 2009, the City of Brea entered in to the cooperative agreement with the County of Orange regarding the Olinda Alpha Landfill. The Olinda Alpha Landfill is located in the City of Brea, but operated by the County of Orange. The agreement extended the operations of the landfill through 2021 and provided the City \$10.5 million for use by the City to benefit community amenities and transportation improvements. The \$10.5 million will be paid over three installments of \$3.5 million each. The first \$3.5 million will be used for the Valencia Avenue Road Project. The remaining \$7 million will provide funding for projects at the City's discretion (\$3.5 million paid in Fiscal Year 2009-10 and 2011-12). In addition, from 2014 through the closure of the landfill, the County will pay the City \$1.50 per ton on waste accepted at the Landfill. This is expected to generate approximately \$2 million per year through 2021.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Brea for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012. This was the twenty-third (23rd) consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of Lee Squire, Financial Services Manager – Accounting, and the entire staff of the Administrative Services Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We also would like to thank our independent auditor, Lance, Soil & Lunghard, LLP, for their expertise and advice in the preparation of this year's financial report.

In closing, without the leadership and support of the City Council of the City of Brea, preparation of this report would not have been possible.

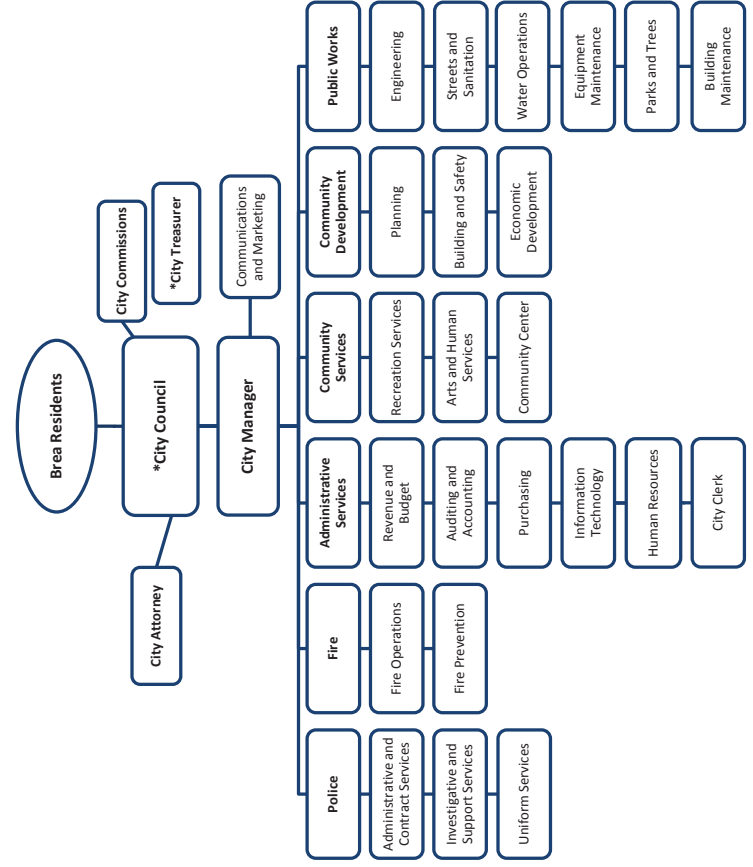
Sincerely,


Tim O'Donnell
City Manager


William Gallardo, CCMT
Administrative Services Director

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CITY ORGANIZATION CHART



**Elected*



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Brea California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO



- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA
- Gary A. Cates, CPA
- Michael D. Mangold, CPA
- David S. Myers, CPA

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Brea, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Brea, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brea, California, as of June 30, 2013, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective



To the Honorable Mayor and Members of the City Council
City of Brea, California

budgetary comparison for the General Fund and the Successor Agency Housing Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



To the Honorable Mayor and Members of the City Council
City of Brea, California

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Brea, California
December 13, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Brea's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2013. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Long-Term Economic Resource (Government-wide) Focus – Economic resources are differentiated from financial resources in that the economic measurement focus measures changes in net position as soon as the event occurs regardless of the timing of related cash flows. Therefore, this measurement focus includes both current spendable resources and fixed non-spendable assets, and long-term claims against these assets. The resulting net position utilizing this measurement focus provides one measure of the City's overall long-term financial condition.

- The assets and deferred inflows of the City exceeded its liabilities at the close of the most recent fiscal year by \$297.6 million.
- The City's total net position increased \$28.0 million to \$297.6 million as a result of current year operations and the transfer of affordable housing assets from the former Brea Redevelopment Agency to the City.
- The City's non-current liabilities of \$55.2 million include \$43.7 million of outstanding bonded debt and capital leases, which was used to finance the acquisition of capital assets and to fund capital improvements. Total capital assets, net of depreciation represent \$238.9 million of the \$362.7 million in total assets. A significant portion of the capital assets have been funded through bond financing from the former Brea Redevelopment Agency.

Short-Term Financial Resource (Fund) Focus – The financial resources focus measures inflows of current spendable assets. The resulting net difference between current financial assets and current financial liabilities otherwise known as fund balance (or net working capital in the private sector) was to measure the City's ability to finance activities in the near term.

- At the close of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$84.3 million, an increase of \$26.3 million. Of the total combined fund balance of \$84.3 million for governmental funds, \$1.7 million was nonspendable, \$53.4 million was restricted, \$7.5 million was committed, \$667,696 was assigned, and \$21.1 million was unassigned. The increase of \$26.3 million was primarily due to the transfer of affordable housing assets from the Successor Agency to the former Brea Redevelopment Agency to the City.
- The General Fund reported an increase of \$1.5 million in fund balance resulting in total ending fund balance of \$32.3 million. Of total ending fund balance, \$1.7 million was nonspendable, \$1.2 million was restricted, \$7.5 million was committed, \$667,696 was assigned, and \$21.2 million was unassigned. The unassigned balance is available for future appropriations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the comprehensive annual financial report contains the following information: *Independent Auditors' Report, Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and the *Supplementary Information* section, an optional section that presents combining and budgetary schedules for individual non-major funds. The *Basic Financial Statements* are comprised of three components: 1) *Government-wide Financial Statements*, 2) *Fund Financial Statements* and 3) *Notes to the Financial Statements*. The Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements – The Government-wide Financial Statements are intended to provide a "Big Picture" view of the City as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets (including non-spendable assets like streets and roads), liabilities (including long-term liabilities that may be paid over twenty or more years) and any deferred outflows of resources. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide Financial Statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the City, one should also consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The Government-wide Financial Statements of the City are divided into two categories:

Governmental Activities – This statement depicts the extent to which programs are self-supporting and the net amount provided by property taxes and other general revenues. Most of the City's basic services are included in this category, such as public safety, community development, community services, public works, and general administration. Taxes and charges for services finance most of these activities.

Business-type Activities – The City's business enterprises include urban runoff, water utility, sewer utility, sanitation, and information technology external support. The City charges fees to customers to recover the cost of providing these services.

Fund Financial Statements – Funds are accounting devices that the City uses to track and control resources intended for specific purposes. The Fund Financial Statements provide more detailed information about the City's most significant funds (major funds) but not the City as a whole. Some funds are required by State and Federal law or by bond covenants. Other funds are utilized simply to control and manage resources intended for particular purposes.

The City utilizes three broad categories of funds:

Governmental Funds – Governmental Funds are used to account for essentially the same functions reported as Government Activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements utilize the financial resources measurement focus and thus concentrate on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the Governmental Fund Financial Statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in Proprietary Funds (Enterprise Funds and Internal Service Funds). Like the Government-wide Financial Statements, these funds provide both long and short-term financial information utilizing the economic resources measurement focus. The City's Enterprise Funds (urban runoff, water, utility, sewer utility, sanitation, and information technology external support) are individual funds represented in the combined presentation of Business-type Activities in the Government-wide Financial Statements. The individual fund presentation provides more detailed information about each business segment, its operating statements, and statements of cash flow. The City also uses Internal Service Funds that are utilized to report and allocate the cost of certain centrally managed and operated activities (risk management, equipment replacement, and building occupancy). Because the Internal Service Funds primarily serve the government, they are reported with Governmental Activities rather than the Business-type Activities in the Government-wide Financial Statements.

Fiduciary Funds – The City utilizes Fiduciary Funds to account for assets held by the City in a trustee capacity, or as an agent for other governmental entities, private organizations, or individuals. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's Government-wide Financial Statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements – The financial statements also include the Notes to the Financial Statements that provide important narrative details about the information contained in the financial statements. Information contained in the Notes to the Financial Statements is critical to a reader's full understanding of the Government-wide and Fund Financial Statements.

Supplementary Information – In addition to the required elements of the Basic Financial Statements, we have also included a Supplementary Information section, which includes budgetary and combining schedules that provide additional details about the City's non-major Governmental Funds, Enterprise Funds, Internal Service Funds, and Fiduciary Funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position – Net position may serve over time as a useful indicator of a government’s financial position. The City’s combined net position for the year ended June 30, 2013, as shown in Table 1, were \$297.6 million.

**Table 1
Net Position
Fiscal Year Ended June 30, 2013
(in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 100,605	\$ 74,432	\$ 23,182	\$ 24,231	\$ 123,787	\$ 98,663
Capital assets	172,451	172,479	66,418	64,478	238,869	236,957
Total assets	273,056	246,911	89,600	88,709	362,656	335,620
Deferred charge on refunding	-	-	1,310	-	1,310	-
Total Deferred Outflows of Resources	-	-	1,310	-	1,310	-
Noncurrent liabilities	18,887	19,470	36,275	35,750	55,162	55,220
Other liabilities	6,730	6,869	4,396	3,938	11,126	10,807
Total liabilities	25,617	26,339	40,671	39,688	66,288	66,027
Net Investment in Capital Assets	165,032	160,656	36,805	36,108	201,837	196,764
Restricted	53,379	26,597	7,411	5,217	60,790	31,814
Unrestricted	29,028	33,319	6,024	7,695	35,052	41,014
Total net position	\$ 247,439	\$ 220,572	\$ 50,240	\$ 49,020	\$ 297,679	\$ 269,592

Net Investment of Capital Assets – The largest component of total assets, \$238.9 million (65.9%), reflects the City’s investment in capital assets (e.g., land, buildings, infrastructure, and equipment). Of the \$55.2 million in long-term (Noncurrent) liabilities, \$37.0 million represents outstanding bonded debt and capital leases. The proceeds from this debt were used to finance the acquisition of capital assets and to fund capital improvements. Total capital assets, net of depreciation represent \$238.9 million of the \$362.7 million in total assets. A significant portion of the capital assets have been funded through bond financing from the former Brea Redevelopment Agency.

Restricted Net Position – An additional portion of the City’s net position, \$60.8 million, represents resources that are subject to external restrictions on how they may be used. The increase from the prior fiscal year was primarily due to the transfer of affordable housing assets from the Successor Agency to the former Brea Redevelopment Agency to the City.

Unrestricted Net Position – The \$35.0 million in unrestricted net position was an overall decrease of \$6.1 million from the prior fiscal year.

Overall the City’s net position increased \$28.0 million during the current fiscal year primarily due to the transfer of affordable housing assets from the former Brea Redevelopment Agency to the City.

**Table 2
Change in Net Position
Fiscal Year Ended June 30, 2013
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Activities	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	\$ 16,068	\$ 19,609	\$ 22,864	\$ 21,230	\$ 38,932	\$ 40,839
Operating grants and contributions	4,955	6,364	11	11	4,966	6,375
Capital grants and contributions	3,496	8,473	-	-	3,496	8,473
General Revenues:						
Taxes:						
Property taxes	12,321	31,974	-	-	12,321	31,974
Sales taxes	19,315	19,249	-	-	19,315	19,249
Transient occupancy taxes	1,401	1,281	-	-	1,401	1,281
Franchise taxes	1,694	1,707	-	-	1,694	1,707
Business license taxes	985	976	-	-	985	976
Other taxes	691	555	-	-	691	555
Motor vehicle in lieu	72	70	-	-	72	70
Use of money and property	610	1,242	55	415	665	1,657
Other	2,820	2,500	1,936	952	4,756	3,452
Extraordinary gain/(loss) on dissolution of redevelopment agency	21,522	119,687	-	-	21,522	119,687
Total Revenues	85,950	213,687	24,866	22,608	110,816	236,296
Expenses:						
General government	7,495	9,748	-	-	7,495	9,748
Public safety	35,849	39,167	-	-	35,849	39,167
Community development	2,615	2,313	-	-	2,615	2,313
Community services	6,623	6,623	-	-	6,623	6,623
Public works	9,719	15,241	-	-	9,719	15,241
Interest on long-term debt	501	2,414	-	-	501	2,414
Urban runoff	-	-	289	270	289	270
Water utility	-	-	14,883	15,513	14,883	15,513
Sewer utility	-	-	1,354	1,227	1,354	1,227
Sanitation	-	-	2,789	2,707	2,789	2,707
Information Technology External Support	-	-	1,272	1,270	1,272	1,270
Total Expenses	62,802	75,505	20,587	20,986	83,389	96,491
Change in net position before transfers	23,148	138,181	4,279	1,622	27,427	139,804
Transfers	3,257	1,093	(3,257)	(1,093)	-	-
Change in net position	26,405	139,274	1,022	529	27,427	139,804
Net position at beginning of year	220,572	81,297	49,020	48,491	269,592	129,788
Restatement of Net position	462	-	197	-	659	-
Net position at end of year	\$ 247,439	\$ 220,572	\$ 50,240	\$ 49,020	\$ 297,679	\$ 269,592

Governmental Activities – The cost of all Governmental Activities in the current fiscal year was \$62.8 million. As shown on the statement of activities, \$16.1 million of the cost was paid by those who directly benefited from the programs, \$8.4 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities, and \$39.9 million was subsidized through general city revenues.

The City reported program revenues of \$24.5 million and general revenues, extraordinary items and transfers of \$64.7 million. Expenses for all Governmental Activities for the year totaled \$62.8 million. Therefore, as a result of operations, the City's change in net position before transfers increased by \$23.1 million in comparison with the prior fiscal year.

Property tax revenues for Fiscal Year 2012-13 posted a decrease of \$19.7 million when compared to Fiscal Year 2011-12. This is a significant difference from the property tax revenues reported for Fiscal Year 2011-12. The decrease in property tax revenues is primarily due to the dissolution of the redevelopment agency. As a result, a portion of these revenues were reported in the private-purpose trust fund in the financial statements of the City.

Sales tax revenues for Fiscal Year 2012-13 were \$66,000 more when compared to Fiscal Year 2011-12. The slight increase in sales tax revenues is reflective of a stabilizing economy.

Total expenses for Fiscal Year 2012-13 were \$62.8 million, a decrease of \$12.7 million when compared to Fiscal Year 2011-12. This was primarily due to the reduction of public works expenses and a decrease in interest expenses due to the dissolution of the redevelopment agency. As a result, a portion of these expenses were reported in the private-purpose trust fund in the financial statements of the City.

Brea is a full service city providing residents, businesses and visitors with the following functional services:

General Government is comprised of two departments (City Council/City Manager and Administrative Services) providing general governance, executive management, legal services, communication and marketing, human resources, records management, information technology, accounting, budget, treasury, utility billing, purchasing and reprographics.

Public Safety is comprised of two departments (Police Services and Fire Services) providing general law enforcement and public safety dispatch for the City of Brea and neighboring City of Yorba Linda, fire suppression, fire prevention, paramedic services and emergency preparedness.

Community Development is comprised of two divisions (Planning & Building Services and Economic Development Services) providing planning, zoning and building services, redevelopment services, economic development and housing services.

Community Services is overseen by one department and includes recreation, arts and human services, and the community center.

Public Works is overseen by one department and includes engineering and construction of public facilities, parks, streets and related infrastructure, traffic engineering as well as the maintenance of all public facilities, parks, streets and related infrastructure.

Business-type activities is comprised of two departments (Public Works and Administrative Services) providing five activities to residential and business customers (urban runoff, water utility, sewer utility, sanitation services and information technology external support to public agencies).

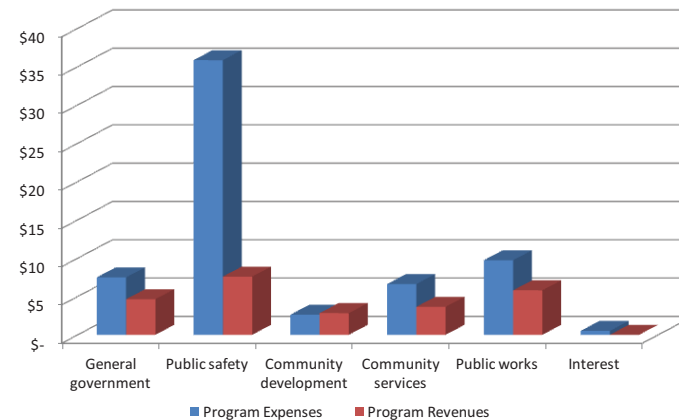
Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

**Table 3
Governmental Activities
Fiscal Year Ended June 30, 2013
(in thousands)**

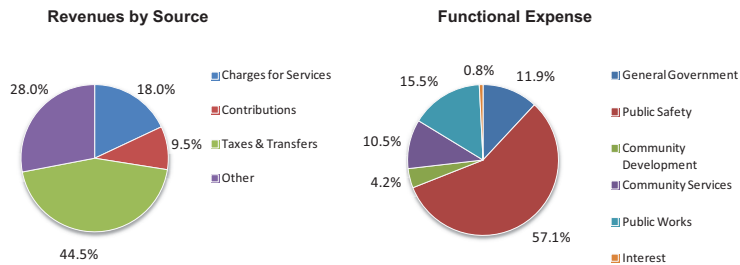
	Program Expenses		Program Revenues	
	2013	2012	2013	2012
General government	\$ 7,495	\$ 9,748	\$ 4,648	\$ 3,152
Public safety	35,849	39,167	7,596	14,181
Community development	2,615	2,313	2,825	2,343
Community services	6,623	6,623	3,649	1,766
Public works	9,719	15,240	5,802	13,004
Interest on long-term debt	501	2,414	-	-
Totals	\$ 62,802	\$ 75,505	\$ 24,520	\$ 34,446

Of the \$24.5 million in program revenues that financed the Governmental Activities, 31% was utilized for Public Safety, 23.7% was utilized for Public Works, 14.9% was utilized for Community Services, and the remaining 30.4% supplemented Community Development, General Government, and Interest.

**Table 4
Program Expenses and Revenues - Governmental Activities
Fiscal Year Ended June 30, 2013
(in millions)**



**Table 5
Governmental Activities
Fiscal Year Ended June 30, 2013**



Major Governmental Activities in the current fiscal year included the following:

Revenues

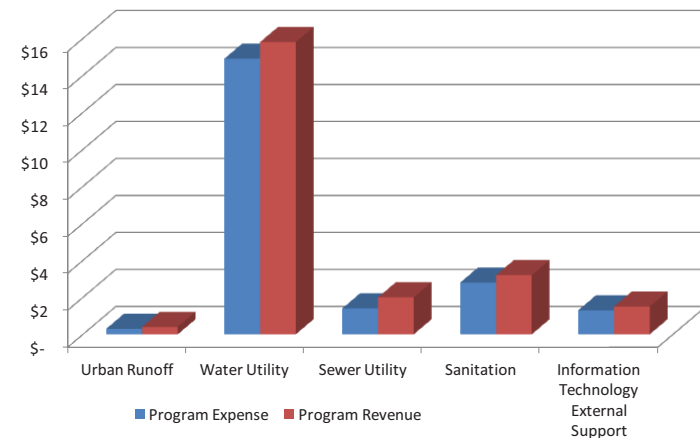
- The City's combined amount of program revenues, general revenues, extraordinary gain and transfers were \$89.2 million. This amount includes operating and capital contributions and grants of \$8.4 million and \$21.5 million due to the transfer of affordable housing assets from the former Brea Redevelopment Agency to the City.
- Of the \$89.2 million in total governmental revenues, extraordinary gain and transfers, 27.5% represents Program Revenues and 44.5% represents taxes & transfers. Other revenues that include the transfer of affordable housing assets from the Successor Agency to the former Brea Redevelopment Agency to the City that makes up 28%.
- Program revenues include \$7.3 million in charges for services for public safety. The amount includes \$5.8 million to provide police services to the City of Yorba Linda up until the contract was terminated in January 2013.

Expenses

- In the current year, expenses for all Governmental Activities were \$62.8 million. See Table 5 for an analysis of the expenses by function/program.

Business-type Activities – Business-type Activities increased the City's net position by \$1.02 million which was comprised of various changes in the net position of the urban runoff, water utility, sewer utility, sanitation and information technology external support activities. Business-type Activities are financed primarily by fees charged to external parties for goods and services.

**Table 6
Program Expense & Revenue – Business-type Activities
Fiscal Year Ended June 30, 2013
(in millions)**



Business-type Activities in the current fiscal year included the following:

The water utility activity had an increase in net position of \$1.94 million. The increase in net position was primarily due to decrease in the cost of purchased water. Of the \$12.7 million in water related expenses, 54.7% was from the purchase of water, 10.1% was from maintenance and other operating expenses, 15.5% was from depreciation, and 19.7% covered personnel costs. Water rates were adjusted effective on January 1, 2013, to fund on-going operations, recapture the bond coverage ratio and provide funding for planned capital improvements to the water utility system.

The sewer utility activity had a decrease in net position of \$378,575. The decrease in net position was primarily due to transfers that include expenses for capital improvement projects. Of the \$1.35 million in sewer related expenses, 10.9% was from maintenance and other operating expenses, 25.9% from depreciation and 63.2% from personnel costs.

The urban runoff activity had an increase in net position of \$48,683. This increase was due to revenues of \$361,321, and expenses of \$288,297. Operating expenses, which included maintenance and operation costs of \$134,029, personnel costs of \$153,331, and depreciation of \$937, totaled \$288,297 while

operating revenues were \$361,321. This resulted in a net operating income of \$73,024 resulting in the increase in net position stated above.

The sanitation utility activity had a decrease in net position of \$447,897. The decrease in net position was due to revenues of \$3.2 million, expenses of \$2.8 million and a transfer out of \$869,143. Operating expenses, which included maintenance and operation costs of \$2.4 million and personnel costs of \$422,232, totaled \$2.8 million while revenues were \$3.2 million.

The information technology external support activity had a decrease in net position of \$127,060. The decrease in net position was primarily due to transfers totaling \$360,000. Operating revenues of \$1.5 million exceeded operating expenses of \$1.3 million by a total of \$232,118.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to highlight available financial resources and to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – Utilizing the financial resources measurement focus, the City's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$84.3 million, an increase of \$26.3 million. The increase is primarily due to the transfer of affordable housing assets from the Successor Agency to the former Brea Redevelopment Agency to the City. Restricted fund balances total \$53.4 million, legally restricted by external parties, primarily for capital projects (\$23.4 million). Committed fund balance total \$7.5 million which was for capital asset replacement. Assigned fund balances total \$667,696 which was primarily for community center replacement. Unassigned fund balances total \$21.1 million.

The General Fund ended the fiscal year with a \$32.3 million fund balance, a net increase of \$1.5 million. Nonspendable fund balance of \$1.7 million was primarily from an advance made to the water utility fund for a portion of the purchase of water rights from the California Domestic Water Company. Restricted fund balance of \$1.2 million was for such items as debt service funds with trustee and for lighting and landscape districts. Committed fund balance of \$7.5 million was for capital asset replacement. Assigned fund balance of \$667,696 was primarily for community center replacement. Unassigned fund balance of \$21.2 million is available for future appropriations.

The Successor Housing Agency Fund ended the fiscal year with a fund balance of \$21.6 million. The fund balance is restricted for affordable housing activities.

The City's Capital Projects Fund ended the fiscal year with a fund balance of \$13.6 million, an increase of \$1.9 million. Restricted fund balance of \$13.6 million is for impact fees.

Proprietary Funds – The City's Proprietary Funds (Enterprise and Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-wide Financial Statements, but include individual segment information.

The Water Utility Fund net position increased by \$1.94 million to \$34.0 million (net of related debt) for the fiscal year ended June 30, 2013. Of that amount, \$23.5 million is net investment in capital assets, \$7.4 million is restricted and \$3.1 million is unrestricted and is available for the cost of operations and capital facilities. Total revenues of \$16.2 million exceeded total expenditures by \$3.6 million, primarily due to the planned accumulation of resources for future infrastructure improvements.

The Sewer Utility Fund net position decreased by \$378,575 to \$15.8 million for the fiscal year ended June 30, 2013. Of that amount, \$13.3 million is net investment in capital assets and \$2.6 million is unrestricted and is available for the cost of operations and upgrading the City's sewer system.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final budgeted resources and transfers in for the General Fund at fiscal year end were \$1.87 million more than the original budget and total actual resources and transfers in were \$2.7 million less than the final budget.

The final appropriations for the General Fund at fiscal year end were \$1.0 million more than the original budget and total actual and transfers out were \$6.1 million less than the final budget. Several factors contributed to the final variance and are briefly summarized as follows:

Changes to Original Budget

Resources (Inflows):

- The variance in miscellaneous revenues of \$2.1 million was primarily due to the receipt of due diligence review payments from the County of Orange.

Changes to Appropriation (Outflows):

- The variance between original budget and final budget in Management services was primarily due to unanticipated legal service costs.

Variances with Final Budget

Resources (Inflows):

- The variance between budgeted and actual for charges for services was \$3.1 million. This was primarily due to the termination of the police services contract with the City of Yorba Linda in January 2013.

Charges to Appropriation (Outflows):

- The variance between budgeted and actual for Public safety was \$2.4 million and was primarily due to the termination of the police services contract with the City of Yorba Linda in January 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2013, amounts to \$238.9 million (net of accumulated depreciation). This investment in a broad range of capital assets includes land, structures and improvements, furniture, machinery and equipment, park facilities, roads, sidewalks, water system, storm drains, sound walls, and bridges. The total net increase (including additions and deletions) of \$1.9 million represents a 0.8% increase from last year.

**Table 7
Capital Assets as of June 30, 2013
(net of depreciation)
(in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 45,669	\$ 45,416	\$ 2,075	\$ 2,075	\$ 47,744	\$ 47,491
Structures and improvements	47,989	50,391	-	-	47,989	50,391
Equipment	6,992	6,821	7	2	6,999	6,823
Infrastructure	67,134	67,423	55,451	57,215	122,585	124,638
Construction-in-progress	4,667	2,428	8,885	5,186	13,552	7,614
Totals	\$ 172,451	\$ 172,479	\$ 66,418	\$ 64,478	\$ 238,869	\$ 236,957

The net increase to construction-in-progress totaled \$5.9 million, as noted above. This was primarily due to the addition of various capital improvement projects.

As a reference, the following significant capital assets and infrastructure projects were completed in fiscal year 2012-13:

- Birch Street Median Landscape Enhancements (Phase 1 & 2)
- Elm Street Widening
- Carbon Canyon Road Waterline Upgrade
- Tamarack Avenue Sewer Upgrade (Phase 4)
- Old City Hall ADA Ramp Improvements

Additional information on the City's capital assets can be found in Note (6) of the Notes to the Financial Statements.

Long-Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding for bonds and leases of \$43.7 million for all governmental and business-type activities.

**Table 8
Outstanding Debt as of June 30, 2013
Bonds and Capital Leases
(in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Lease revenue bonds	\$ 2,760	\$ 2,760	\$ -	\$ -	\$ 2,760	\$ 2,760
Water revenue bonds	-	-	36,325	37,265	36,325	37,265
Capital leases	4,660	5,162	-	-	4,660	5,162
Totals	\$ 7,420	\$ 7,922	\$ 36,325	\$ 37,265	\$ 43,745	\$ 45,187

Additional information on the City's long-term debt can be found in Note (7) of the Notes to the Financial Statements.

FACTORS EFFECTING NEXT YEAR'S BUDGET

The Fiscal Year 2013-14 General Fund budgeted expenditures decreased by approximately 13%. Budgeted expenditures for all other funds, excluding capital improvement projects, debt service and internal charges, decreased 3% overall from the fiscal year 2012-13 estimated expenditures.

A brief summary of the factors considered when preparing the fiscal year 2013-14 budget are as follows:

- Sales tax represents the single largest source of General Fund revenue, budgeted at \$19 million for fiscal year 2013-14. Based on economic data trends and projections, sales tax is projected to grow 3.8% for fiscal year 2013-14. Brea's sales tax on a per capita basis consistently outperforms other municipalities, a strong indicator that the City imports sales tax dollars from surrounding communities.
- General Fund property taxes are projected to be relatively flat and represent \$6.9 million of General Fund revenues.
- While acknowledging that the cost of materials, supplies and contract services do increase, department operating expenditures were held relatively flat or reduced wherever possible.
- Due to pension reform within the City of Brea, employees will continue to contribute a greater percentage toward their retirement in accordance with provisions of memorandums of understandings (MOU's) effective July 1, 2014. Since July of 2011, all new full-time employees contribute 100% of the employee costs of retirement.
- The Yorba Linda City Council voted to enter into a new police services contract with the Orange County Sheriff, ending a 42-year relationship with the City of Brea. The police services contract expired in January 2013 and staff are engaged in fully transitioning to a Brea-only police department. This transition period is expected to take 18-24 months. One outcome of this significant restructuring is the loss of 40 mostly younger police officers. The average age of the Brea-only Police force has consequently increased dramatically, which has now highlighted the need to focus on succession planning as a top priority.
- Overall, Fiscal Year 2013-14 General Fund revenues are projected to be relatively less in comparison to revenues in Fiscal Year 2012-13 due to a slow economic recovery and the elimination of the Yorba Linda Police Services Contract in January 2013.

- Uncertainty of the current State of California budget and the State's continued propensity to balance its budget on the backs of local government.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City's Administrative Services Department, 1 Civic Center Circle, Brea, CA 92821, at (714) 990-7676.

CITY OF BREA

STATEMENT OF NET POSITION JUNE 30, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Cash and investments	\$ 63,141,116	\$ 3,762,846	\$ 66,903,962
Receivables:			
Accounts	1,049,880	4,294,542	5,344,422
Taxes	195,502	-	195,502
Notes and loans	19,448,862	-	19,448,862
Accrued interest	896,957	-	896,957
Internal balances	5,253,165	(5,253,165)	-
Prepaid costs	339,320	-	339,320
Deposits	-	1,133,328	1,133,328
Due from other governments	5,323,353	206,971	5,530,324
Due from Successor Agency	154,574	-	154,574
Land held for resale	4,511,238	-	4,511,238
Other investments	-	11,626,520	11,626,520
Restricted assets:			
Cash and investments	-	2,271,389	2,271,389
Cash with fiscal agent	291,130	5,139,863	5,430,993
Capital assets not being depreciated	50,336,546	10,959,829	61,296,375
Capital assets, net of depreciation	122,114,672	55,458,263	177,572,935
Total Assets	273,056,315	89,600,386	362,656,701
Deferred Outflows of Resources:			
Deferred charge on refunding	-	1,310,432	1,310,432
Total Deferred Outflows of Resources	-	1,310,432	1,310,432
Liabilities:			
Accounts payable	2,967,145	3,092,261	6,059,406
Accrued liabilities	707,542	84,116	791,658
Accrued interest	129,563	1,021,188	1,150,751
Unearned revenue	681,113	-	681,113
Deposits	166,319	198,330	364,649
Due to other governments	2,001,274	-	2,001,274
Due to Successor Agency	76,750	-	76,750
Noncurrent liabilities:			
Due within one year	4,968,623	1,133,549	6,102,172
Due in more than one year	13,918,526	35,141,405	49,059,931
Total Liabilities	25,616,855	40,670,849	66,287,704
Net Position:			
Net investment in capital assets	165,031,654	36,804,832	201,836,486
Restricted for:			
Affordable housing	23,664,615	-	23,664,615
Public safety	2,007,353	-	2,007,353
Public works	4,001,524	-	4,001,524
Capital projects	23,415,005	2,271,389	25,686,394
Debt service	291,130	5,139,863	5,430,993
Unrestricted	29,028,179	6,023,885	35,052,064
Total Net Position	\$ 247,439,460	\$ 50,239,969	\$ 297,679,429

See Notes to Financial Statements

CITY OF BREA

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 7,495,185	\$ 1,890,749	\$ 2,757,120	\$ -
Public safety	35,849,288	7,315,925	279,876	-
Community development	2,615,088	1,535,351	190,777	1,098,436
Community services	6,622,332	3,638,056	10,814	-
Public works	9,718,841	1,688,142	1,716,626	2,397,137
Interest on long-term debt	501,265	-	-	-
Total Governmental Activities	62,801,999	16,068,223	4,955,213	3,495,573
Business-Type Activities:				
Urban Runoff	288,517	361,321	-	-
Water Utility	14,883,425	16,401,415	-	-
Sewer Utility	1,353,552	2,018,405	-	-
Sanitation	2,789,289	3,199,135	11,323	-
Information Technology External Support	1,271,540	1,499,019	-	-
Total Business-Type Activities	20,586,323	23,479,295	11,323	-
Total Primary Government	\$ 83,388,322	\$ 39,547,518	\$ 4,966,536	\$ 3,495,573

General Revenues:

Taxes:

Property taxes, levied for general purpose	12,320,889	-	12,320,889
Transient occupancy taxes	1,401,140	-	1,401,140
Sales taxes	19,315,104	-	19,315,104
Franchise taxes	1,693,964	-	1,693,964
Business licenses taxes	985,391	-	985,391
Other taxes	690,840	-	690,840
Motor vehicle in lieu - unrestricted	71,847	-	71,847
Use of money and property	(568,685)	54,871	(513,814)
Rental Income	1,171,695	-	1,171,695
Other	2,820,335	1,320,699	4,141,034
Gain on sale of capital asset	6,923	-	6,923
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 15)	21,522,303	-	21,522,303
Transfers	3,256,862	(3,256,862)	-

Total General Revenues, Extraordinary Items and Transfers

Total General Revenues, Extraordinary Items and Transfers	64,688,608	(1,881,292)	62,807,316
Change in Net Position	26,405,618	1,023,003	27,428,621
Net Position at Beginning of Year	220,572,292	49,020,185	269,592,477
Restatement of Net Position	461,550	196,781	658,331
Net Position at End of Year	\$ 247,439,460	\$ 50,239,969	\$ 297,679,429

See Notes to Financial Statements

Net (Expenses) Revenues and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (2,847,316)	\$ -	\$ (2,847,316)
(28,253,487)	-	(28,253,487)
209,476	-	209,476
(2,973,462)	-	(2,973,462)
(3,916,936)	-	(3,916,936)
(501,265)	-	(501,265)
(38,282,990)	-	(38,282,990)
-	72,804	72,804
-	1,517,990	1,517,990
-	664,853	664,853
-	421,169	421,169
-	227,479	227,479
-	2,904,295	2,904,295
(38,282,990)	2,904,295	(35,378,695)

See Notes to Financial Statements

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GOVERNMENTAL FUNDS

Major Funds

The **General Fund** is used to account for fiscal resources which are dedicated to governmental operations of the City, and not required to be accounted for in another fund.

The **Successor Agency Housing Fund** is used to account for the housing assets as a result of the dissolution of the former Redevelopment Agency. Resources generated from these assets are to be used for low to moderate income housing purposes.

The **Capital Projects Fund Capital Improvements** is used to account for the costs of constructing street improvements, parks and other public improvements not normally included within the other Capital Projects Funds. Financing is provided by Federal and State Grant Revenues and interfund transfers from the Special Revenue Funds and the General Fund.

Non-Major Funds

Non-major governmental funds are those governmental funds which do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Governmental Funds.

CITY OF BREA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Special Revenue Fund Successor Agency Housing Fund	Capital Projects Fund Capital Improvements
Assets:			
Cash and investments	\$ 27,180,244	\$ 488,192	\$ 14,759,919
Receivables:			
Accounts	986,817	7,474	5,500
Taxes	191,335	-	-
Notes and loans	-	17,670,758	-
Interest	266,838	630,119	-
Prepaid items	339,320	-	-
Due from other funds	641,534	-	-
Due from other governments	3,836,245	-	1,014,653
Due from Successor Agency	52,693	-	101,881
Advances to other funds	1,335,830	-	-
Land held for resale	-	4,511,238	-
Restricted assets:			
Cash and investments with fiscal agents	291,130	-	-
Total Assets	\$ 35,121,986	\$ 23,307,781	\$ 15,881,953
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ 617,796	\$ 1,755	\$ 1,463,105
Accrued liabilities	663,382	1,698	10,697
Unearned revenues	525,821	-	155,292
Deposits payable	151,080	15,239	-
Due to other funds	-	-	-
Due to other governments	223,155	-	-
Advances from other funds	-	-	-
Due to Successor Agency	780	62,542	13,428
Total Liabilities	2,182,014	81,234	1,642,522
Deferred Inflows of Resources:			
Unavailable revenues	684,359	1,609,962	684,607
Total Deferred Inflows of Resources	684,359	1,609,962	684,607
Fund Balances:			
Nonspendable	1,675,150	-	-
Restricted	1,191,585	21,616,585	13,554,824
Committed	7,496,895	-	-
Assigned	667,696	-	-
Unassigned	21,224,287	-	-
Total Fund Balances	32,255,613	21,616,585	13,554,824
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 35,121,986	\$ 23,307,781	\$ 15,881,953

See Notes to Financial Statements

CITY OF BREA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	Other Governmental Funds	Total Governmental Funds
Assets:		
Cash and investments	\$ 16,902,715	\$ 59,331,070
Receivables:		
Accounts	-	999,791
Taxes	4,167	195,502
Notes and loans	1,778,104	19,448,862
Interest	-	896,957
Prepaid items	-	339,320
Due from other funds	-	641,534
Due from other governments	344,340	5,195,238
Due from Successor Agency	-	154,574
Advances to other funds	-	1,335,830
Land held for resale	-	4,511,238
Restricted assets:		
Cash and investments with fiscal agents	-	291,130
Total Assets	\$ 19,029,326	\$ 93,341,046
Liabilities, Deferred Inflows of Resources, and Fund Balances:		
Liabilities:		
Accounts payable	\$ 164,250	\$ 2,246,906
Accrued liabilities	5,676	681,453
Unearned revenues	-	681,113
Deposits payable	-	166,319
Due to other funds	69,934	69,934
Due to other governments	1,778,119	2,001,274
Advances from other funds	42,169	42,169
Due to Successor Agency	-	76,750
Total Liabilities	2,060,148	5,965,918
Deferred Inflows of Resources:		
Unavailable revenues	97,197	3,076,125
Total Deferred Inflows of Resources	97,197	3,076,125
Fund Balances:		
Nonspendable	-	1,675,150
Restricted	17,016,633	53,379,627
Committed	-	7,496,895
Assigned	-	667,696
Unassigned	(144,652)	21,079,635
Total Fund Balances	16,871,981	84,299,003
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 19,029,326	\$ 93,341,046

See Notes to Financial Statements

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CITY OF BREA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Fund balances of governmental funds		\$ 84,299,003
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.		
Capital assets	\$ 264,419,445	
Accumulated depreciation	<u>(97,266,502)</u>	167,152,943
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds:		
Lease revenue bonds long-term liabilities	(2,760,000)	
Capital leases payable	(3,890,000)	
Compensated absences	(2,640,817)	
Other post employment benefits obligation	<u>(3,690,010)</u>	(12,980,827)
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds.		(117,389)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.		2,862,125
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net position.		<u>6,223,605</u>
Net position of governmental activities		<u>\$ 247,439,460</u>

CITY OF BREA

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Special Revenue Fund Successor Agency Housing Fund	Capital Projects Fund Capital Improvements
Revenues:			
Taxes	\$ 32,549,204	\$ -	\$ -
Licenses and permits	485,113	-	-
Intergovernmental	3,576,953	-	2,683,219
Charges for services	10,210,510	-	1,614,079
Investment income	51,870	139	15,662
Fines and forfeitures	1,028,726	-	-
Contributions	-	-	499,568
Rental income	1,551,389	175,764	-
Miscellaneous	5,051,111	70,915	15,680
Total Revenues	54,504,876	246,818	4,828,208
Expenditures:			
Current:			
General government	5,475,428	-	93,113
Public safety	34,398,580	-	-
Community development	2,347,409	151,946	473
Community services	6,141,746	-	-
Public works	4,674,483	590	3,190
Capital outlay	-	-	6,896,432
Debt service:			
Principal retirement	368,460	-	-
Interest and fiscal charges	460,878	-	-
Total Expenditures	53,866,984	152,536	6,993,208
Excess (Deficiency) of Revenues Over (Under) Expenditures	637,892	94,282	(2,165,000)
Other Financing Sources (Uses):			
Transfers in	2,823,963	-	4,080,746
Transfers out	(1,926,686)	-	-
Proceeds from sale of capital asset	-	-	-
Total Other Financing Sources (Uses)	897,277	-	4,080,746
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 14)	-	21,522,303	-
Net Change in Fund Balances	1,535,169	21,616,585	1,915,746
Fund Balances, Beginning of Year	30,720,444	-	11,639,078
Fund Balances, End of Year	\$ 32,255,613	\$ 21,616,585	\$ 13,554,824

See Notes to Financial Statements

CITY OF BREA

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Other Governmental Funds	Total Governmental Funds
Revenues:		
Taxes	\$ 915,381	\$ 33,464,585
Licenses and permits	-	485,113
Intergovernmental	1,131,427	7,391,599
Charges for services	562,396	12,386,985
Investment income	3,025	70,696
Fines and forfeitures	471,628	1,500,354
Contributions	1,800,000	2,299,568
Rental income	-	1,727,153
Miscellaneous	239,778	5,377,484
Total Revenues	5,123,635	64,703,537
Expenditures:		
Current:		
General government	1,041	5,569,582
Public safety	871,575	35,270,155
Community development	170,161	2,669,989
Community services	-	6,141,746
Public works	91,122	4,769,385
Capital outlay	-	6,896,432
Debt service:		
Principal retirement	-	368,460
Interest and fiscal charges	-	460,878
Total Expenditures	1,133,899	62,146,627
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,989,736	2,556,910
Other Financing Sources (Uses):		
Transfers in	-	6,904,709
Transfers out	(2,807,112)	(4,733,798)
Proceeds from sale of capital asset	6,850	6,850
Total Other Financing Sources (Uses)	(2,800,262)	2,177,761
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 14)	-	21,522,303
Net Change in Fund Balances	1,189,474	26,256,974
Fund Balances, Beginning of Year	15,682,507	58,042,029
Fund Balances, End of Year	\$ 16,871,981	\$ 84,299,003

See Notes to Financial Statements

CITY OF BREA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds \$ 26,256,974

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 6,299,367	
Depreciation	<u>(6,820,450)</u>	(521,083)

The issuance of long-term debt (e.g., bonds, leases) provides current resources to governmental funds, while the repayment of long-term debt principal consumes the current financial resources of governmental funds. Issuance of bond principal is another financing source and repayment is an expenditure in the governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.

Capital leases principal payments	368,454
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Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.	(2,207)
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Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	255,348
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Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense.	(547,282)
--	-----------

Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.	308,496
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Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.	1,102,144
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Investment value in investment in joint venture. This amount was transferred to the County of Orange on December 18, 2012 upon dissolution of the joint venture.	<u>(815,226)</u>
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Change in net position of governmental activities	<u>\$ 26,405,618</u>
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See Notes to Financial Statements

CITY OF BREA

**BUDGETARY COMPARISON STATEMENT BY DEPARTMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1	\$ 30,720,444	\$ 30,720,444	\$ 30,720,444	\$ -
Resources (Inflows):				
Taxes	31,997,840	31,997,840	32,549,204	551,364
Licenses and permits	465,100	465,100	485,113	20,013
Intergovernmental	3,669,388	3,669,388	3,576,953	(92,435)
Charges for services	13,269,132	13,269,132	10,210,510	(3,058,622)
Use of money and property	1,864,130	1,864,130	1,603,259	(260,871)
Fines and forfeitures	1,235,400	1,235,400	1,028,726	(206,674)
Miscellaneous	2,514,134	4,667,721	5,051,111	383,390
Transfers in	<u>3,159,081</u>	<u>2,878,291</u>	<u>2,823,963</u>	<u>(54,328)</u>
Amounts Available for Appropriations	<u>88,894,649</u>	<u>90,767,446</u>	<u>88,049,283</u>	<u>(2,718,163)</u>
Charges to Appropriations (Outflow):				
General government				
Management services	2,124,429	2,717,920	2,532,415	185,505
Administrative services	3,624,722	3,873,697	2,943,013	930,684
Public safety				
Police	25,418,420	25,442,868	23,338,502	2,104,366
Fire	11,284,506	11,337,371	11,060,078	277,293
Community development	2,455,650	2,566,152	2,347,409	218,743
Community services	6,593,163	6,676,158	6,141,746	534,412
Public works	5,380,635	5,286,841	4,674,483	612,358
Debt service:				
Principal retirement	368,460	368,460	368,460	-
Interest and fiscal charges	460,878	460,878	460,878	-
Transfers out	<u>2,955,034</u>	<u>3,167,034</u>	<u>1,926,686</u>	<u>1,240,348</u>
Total Charges to Appropriations	<u>60,665,897</u>	<u>61,897,379</u>	<u>55,793,670</u>	<u>6,103,709</u>
Budgetary Fund Balance, June 30	<u>\$ 28,228,752</u>	<u>\$ 28,870,067</u>	<u>\$ 32,255,613</u>	<u>\$ 3,385,546</u>

See Notes to Financial Statements

CITY OF BREA

BUDGETARY COMPARISON STATEMENT
 SUCCESSOR AGENCY HOUSING FUND
 YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):				
Investment income	4,000	4,000	139	(3,861)
Rental income	180,000	180,000	175,764	(4,236)
Miscellaneous	200,000	389,366	70,915	(318,451)
Amounts Available for Appropriations	384,000	573,366	246,818	(326,548)
Charges to Appropriations (Outflow):				
Community development	158,000	327,800	151,946	175,854
Public works	-	-	590	(590)
Total Charges to Appropriations	158,000	327,800	152,536	175,264
Extraordinary Gain/(Loss) on dissolution of Redevelopment Agency	-	(21,522,303)	(21,522,303)	-
Budgetary Fund Balance, June 30	\$ 226,000	\$21,767,869	\$ 21,616,585	\$ (151,284)

See Notes to Financial Statements

PROPRIETARY FUNDS

Business-type Activities

The **Water Utility Fund** is a Major Fund used to account for the operations of the City's water utility, which are operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

The **Sewer Utility Fund** is a Major Fund used to account for the operations of the City's sewer distribution lines, which are operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

Non-Major Funds

Non-major proprietary funds are those proprietary funds which do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Enterprise Funds.

Governmental Activities

The **Internal Service Funds** are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis.

CITY OF BREA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Other Enterprise Funds	Total	
Assets:					
Current:					
Cash and investments	\$ 779,004	\$ 2,292,781	\$ 691,061	\$ 3,762,846	\$ 3,810,046
Receivables:					
Accounts receivable	3,338,846	317,695	638,001	4,294,542	50,089
Deposits	1,133,328	-	-	1,133,328	-
Due from other governments	-	-	206,971	206,971	128,115
Restricted:					
Cash and investments	2,271,389	-	-	2,271,389	-
Cash and investments with fiscal agent	5,139,863	-	-	5,139,863	-
Total Current Assets	12,662,430	2,610,476	1,536,033	16,808,939	3,988,250
Noncurrent:					
Capital assets - net of accumulated depreciation	53,136,247	13,270,304	11,541	66,418,092	5,298,275
Other investments	11,626,520	-	-	11,626,520	-
Advances to other funds	-	-	-	-	3,151,787
Total Noncurrent Assets	64,762,767	13,270,304	11,541	78,044,612	8,450,062
Total Assets	77,425,197	15,880,780	1,547,574	94,853,551	12,438,312
Deferred Outflows of Resources:					
Deferred charge on refunding	1,310,432	-	-	1,310,432	-
Total Deferred Outflows of Resources	1,310,432	-	-	1,310,432	-
Liabilities and Net Position:					
Liabilities:					
Current:					
Accounts payable	2,896,248	5,129	190,884	3,092,261	506,239
Accrued liabilities	38,054	13,356	32,706	84,116	26,089
Accrued interest	1,021,188	-	-	1,021,188	12,174
Deposits payable	198,330	-	-	198,330	-
Due to other funds	-	-	571,600	571,600	-
Accrued compensated absences, due within one year	56,243	22,556	79,750	158,549	48,945
Accrued claims and judgments, due within one year	-	-	-	-	2,448,911
Bonds, notes, and capital leases, due within one year	975,000	-	-	975,000	140,155
Total Current Liabilities	5,185,063	41,041	874,940	6,101,044	3,182,513
Noncurrent:					
Advances from other funds	4,445,448	-	-	4,445,448	-
Accrued compensated absences, due in more than one year	18,747	7,519	26,584	52,850	16,315
Accrued claims and judgments, due in more than one year	-	-	-	-	2,622,587
Bonds, notes, and capital leases, due in more than one year	35,088,555	-	-	35,088,555	629,409
Total Noncurrent Liabilities	39,552,750	7,519	26,584	39,586,853	3,268,311
Total Liabilities	44,737,813	48,560	901,524	45,687,897	6,450,824
Net Position:					
Net investment in capital assets	23,522,987	13,270,304	11,541	36,804,832	4,528,711
Restricted for capital projects	2,271,389	-	-	2,271,389	-
Restricted for debt service	5,139,863	-	-	5,139,863	-
Unrestricted	3,063,577	2,561,916	634,509	6,260,002	1,458,777
Total Net Position	\$ 33,997,816	\$ 15,832,220	\$ 646,050	\$ 50,476,086	\$ 5,987,488

Reconciliation of Net Position to the Statement of Net Position

Net Position per Statement of Net Position - Proprietary Funds	\$ 50,476,086
Prior years' accumulated adjustment to reflect the consolidation of internal service funds activities related to the enterprise funds	(228,897)
Current years' adjustments to reflect the consolidation of internal service activities related to enterprise funds	(7,220)
Net Position per Statement of Net Position	\$ 50,239,969

See Notes to Financial Statements

CITY OF BREA

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Other Enterprise Funds	Total	
Operating Revenues:					
Charges for services	\$ 14,778,353	\$ 2,002,555	\$ 4,953,549	\$ 21,734,457	\$ 7,340,352
Connection fees	584,801	15,850	-	600,651	-
Miscellaneous	861,277	-	105,926	967,203	432,130
Total Operating Revenues	16,224,431	2,018,405	5,059,475	23,302,311	7,772,482
Operating Expenses:					
Personnel services	2,492,830	854,676	1,753,736	5,101,242	1,296,429
Maintenance and operation	1,281,828	147,162	2,590,795	4,019,785	3,549,413
Cost of purchased water	6,926,073	-	-	6,926,073	-
Claims and judgements	-	-	-	-	2,272,808
Depreciation expense	1,959,759	350,001	2,109	2,311,869	831,473
Total Operating Expenses	12,660,490	1,351,839	4,346,640	18,358,969	7,950,123
Operating Income (Loss)	3,563,941	666,566	712,835	4,943,342	(177,641)
Nonoperating Revenues (Expenses):					
Federal interest subsidy on debt	504,460	-	-	504,460	-
Settlement	816,239	-	-	816,239	-
Intergovernmental	-	-	11,323	11,323	25,215
Interest revenue	24,693	26,289	3,889	54,871	5,948
Interest expense	(2,220,134)	-	-	(2,220,134)	(38,180)
Contributions	-	-	-	-	200,000
Gain (loss) on disposal of capital assets	176,984	-	-	176,984	(6,369)
Total Nonoperating Revenues (Expenses)	(697,758)	26,289	15,212	(656,257)	186,614
Income (Loss) Before Transfers	2,866,183	692,855	728,047	4,287,085	8,973
Transfers in	-	-	-	-	2,065,951
Transfers out	(931,111)	(1,071,430)	(1,254,321)	(3,256,862)	(980,000)
Changes in Net Position	\$ 1,935,072	\$ (378,575)	\$ (526,274)	\$ 1,030,223	\$ 1,094,924
Net Position:					
Beginning of year, as previously reported	\$ 31,865,963	\$ 16,210,795	\$ 1,172,324	\$ 49,249,082	\$ 4,431,014
Restatements	196,781	-	-	196,781	461,550
Beginning of year, as restated	32,062,744	16,210,795	1,172,324	49,445,863	4,892,564
Changes in Net Position	1,935,072	(378,575)	(526,274)	1,030,223	1,094,924
End of Fiscal Year	\$ 33,997,816	\$ 15,832,220	\$ 646,050	\$ 50,476,086	\$ 5,987,488
Reconciliation of Changes in Net Position to the Statement of Activities:					
Changes in Net Position, per the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds				\$ 1,030,223	
Adjustment to reflect the consolidation of current fiscal year internal service funds activities related to enterprise funds				(7,220)	
Changes in Net Position of Business-Type Activities per Statement of Activities				\$ 1,023,003	

See Notes to Financial Statements

CITY OF BREA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Other Enterprise Funds		
Cash Flows from Operating Activities:					
Cash received from customers and users	\$ 13,771,868	\$ 2,006,858	\$ 5,093,531	\$ 20,872,257	\$ 7,778,069
Cash paid to suppliers for goods and services	(7,770,447)	(146,219)	(2,585,593)	(10,502,259)	(3,169,527)
Cash paid to employees for services	(2,503,825)	(849,278)	(1,749,875)	(5,102,978)	(3,571,681)
Net Cash Provided (Used) by Operating Activities	3,497,596	1,011,361	758,063	5,267,020	1,036,861
Cash Flows from Non-Capital Financing Activities:					
Cash transfers out for noncapital financing activities	(931,111)	(1,071,430)	(1,254,321)	(3,256,862)	(980,000)
Cash transfers in for noncapital financing activities	-	-	-	-	2,065,951
Repayment received from other other funds	-	-	453,825	453,825	-
Advance from other funds	-	-	-	-	566,012
Advance to other funds	(798,333)	-	-	(798,333)	-
Contributions	-	-	11,323	11,323	200,000
Federal interest subsidy on debt	504,460	-	-	504,460	-
Settlement	816,239	-	-	816,239	-
Grant subsidy	-	-	-	-	25,215
Net Cash Provided (Used) by Non-Capital Financing Activities	(408,745)	(1,071,430)	(789,173)	(2,269,348)	1,877,178
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(2,128,706)	(2,171,538)	-	(4,300,244)	(949,694)
Proceeds from sales of capital assets	225,518	-	-	225,518	80,532
Principal paid on capital debt	(940,000)	-	-	(940,000)	(133,884)
Interest paid on capital debt	(2,071,841)	-	-	(2,071,841)	(40,298)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,915,029)	(2,171,538)	-	(7,086,567)	(1,043,344)
Cash Flows from Investing Activities:					
Restatement of prior year purchase of other investments	354,165	-	-	354,165	-
Purchase of other investments	(302,592)	-	-	(302,592)	-
Interest received	24,693	26,289	3,889	54,871	5,948
Net Cash Provided (Used) by Investing Activities	76,266	26,289	3,889	106,444	5,948
Net Increase (Decrease) in Cash and Cash Equivalents	(1,749,912)	(2,205,318)	(27,221)	(3,982,451)	1,876,643
Cash and Cash Equivalents at Beginning of Year	9,940,168	4,498,099	718,282	15,156,549	1,933,403
Cash and Cash Equivalents at End of Year	\$ 8,190,256	\$ 2,292,781	\$ 691,061	\$ 11,174,098	\$ 3,810,046
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ 3,563,941	\$ 666,566	\$ 712,835	\$ 4,943,342	\$ (177,641)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:					
Depreciation	1,959,759	350,001	2,109	2,311,869	831,473
(Increase) decrease in accounts receivable	(1,341,005)	(11,547)	(33,447)	(1,385,999)	37,421
(Increase) decrease in deposits receivable	(1,133,328)	-	-	(1,133,328)	-
(Increase) decrease in due from other governments	-	-	67,503	67,503	(31,834)
(Increase) decrease in prepaid expense	-	-	-	-	416,920
Increase (decrease) in accounts payable	437,454	943	5,202	443,599	333,457
Increase (decrease) in accrued liabilities	(1,252)	2,215	1,659	2,622	(577)
Increase (decrease) in deposits payable	21,770	-	-	21,770	-
Increase (decrease) in claims and judgments	-	-	-	-	(369,914)
Increase (decrease) in compensated absences	(9,743)	3,183	2,202	(4,358)	(2,444)
Total Adjustments	(66,345)	344,795	45,228	323,678	1,214,502
Net Cash Provided (Used) by Operating Activities	\$ 3,497,596	\$ 1,011,361	\$ 758,063	\$ 5,267,020	\$ 1,036,861
Non-Cash Investing, Capital, and Financing Activities:					
Amortization of bond discount and premium	\$ (4,835)	\$ -	\$ -	\$ (4,835)	\$ -
Amortization of loss on refunding	163,803	-	-	163,803	-
See Notes to Financial Statements					

FIDUCIARY FUNDS

Agency Funds, a type of Fiduciary Fund, are used to account for assets held by the City as an agent for other governmental entities, private organizations, or individuals.

Private-Purpose Trust Fund, a type of Fiduciary Fund, is used to account for assets held by the City as Successor Agency of the former Brea Redevelopment Agency.

CITY OF BREA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Agency Funds	Private- Purpose Trust Fund Successor Agency of the Former RDA
Assets:		
Cash and investments	\$ 4,028,105	\$ 1,831,514
Receivables:		
Accounts	65,977	-
Taxes	15,099	-
Accrued interest	-	118,595
Deferred loans	-	2,904,630
Due from City	-	76,750
Land held for resale	-	2,244,117
Prepaid insurance	-	1,455,078
Restricted assets:		
Cash and investments with fiscal agents	1,740,318	32,574,555
Total Assets	\$ 5,849,499	41,205,239
Liabilities:		
Accounts payable	\$ 96,557	7,908
Accrued liabilities	789,551	-
Accrued interest	-	3,361,097
Due to other governments	40,153	-
Due to City	-	154,574
Due to external parties/other agencies	4,923,238	-
Long-term liabilities:		
Due in one year	-	8,873,489
Due in more than one year	-	189,233,088
Total Liabilities	\$ 5,849,499	201,630,156
Net Position:		
Held in trust for other purposes		(160,424,917)
Total Net Position		\$ (160,424,917)

See Notes to Financial Statements

CITY OF BREA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013

	Private- Purpose Trust Fund Successor Agency of the Former RDA
Additions:	
Taxes	\$ 19,031,214
Interest and change in fair value of investments	198,226
Rental income	213,222
Proceeds from sale of land	15,549
Miscellaneous	87,374
Total Additions	19,545,585
Deductions:	
Administrative expenses	662,946
Contractual services	196,010
Interest expense	9,844,086
Contributions to other governments	13,170,426
Project expenditures	580,661
Total Deductions	24,454,129
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 14)	(21,522,303)
Changes in Net Position	\$ (26,430,847)
Net Position:	
Beginning of the year	\$ (132,496,293)
Restatements	(1,497,777)
Beginning of the year, as restated	(133,994,070)
Changes in Net Position	(26,430,847)
End of the Year	\$ (160,424,917)

See Notes to Financial Statements

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CITY OF BREA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

The financial statements of the City of Brea, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City of Brea are described below:

a. Description of the Reporting Entity

The City of Brea was incorporated on February 23, 1917, under the general laws of the State of California. The City operates under the Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, cultural recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Brea and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

Based upon the above criteria, the component units of the City are the Brea Public Financing Authority and the Midbury Assessment Authority.

Since City Council serves as the governing board for these component units, all of the City's component units are considered to be blended component units. Blended component units, although legally separate entities, are in substance, part of the City's operations, so data from these units is combined therein. A brief description of each component unit follows:

City of Brea Public Financing Authority

The City of Brea Public Financing Authority was created by a joint exercise of joint powers agreement between the City of Brea and the former Redevelopment Agency of the City of Brea on November 17, 1987. In April 1988, the Brea-Olinda Unified School District became an associate member of the Authority. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for various capital improvements. The Authority is administered by the Board who are the members of the City Council and the Mayor. The Authority's primary source of income will be installment sale, loan and lease payments received from the City and

CITY OF BRE A

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

the Successor Agency to the former Brea Redevelopment Agency, which will be used to meet the debt service requirements on debt issues. The Authority does not have taxing power.

The Brea Public Financing Authority issue separate component unit financial statements. Upon completion, these component unit financial statements can be obtained at City Hall.

Midbury Assessment Authority

The Midbury Assessment Authority was created by a joint exercise of joint powers agreement between the City of Brea, Los Angeles County, and Orange County on May 18, 1999. The purpose of the authority is to provide a means for each party to the agreement to contribute money to street improvement projects, to form an assessment district and to levy an assessment to finance the balance of the projects. The Authority is administered by the Board who are the members of the City Council and the Mayor. The Authority's primary source of income will be from new assessments that result in additional taxes. Separate financial statements are not prepared for the Midbury Assessment Authority.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar

CITY OF BRE A

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of sales tax revenue, which are considered available if collected within 90 days of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City's fiduciary funds consist of agency funds and a private purpose trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Private purpose trust fund funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The City reports the following major governmental funds:

- The **General Fund** is the City's primary operating fund. It accounts for all general revenues of the City not specifically levied or collected for other City funds, and for expenditures related to the rendering of general services by the City. The General Fund is used to account for all resources not required to be accounted for in another fund.
- The **Successor Agency Housing Fund Special Revenue Fund** accounts for the housing assets as a result of the dissolution of the former Brea Redevelopment Agency. Resources generated from these assets are to be used for low to moderate income housing purposes.
- The **Capital Improvements Capital Projects Fund** accounts for the costs of constructing street improvements, parks and other public improvements not normally included within the other Capital Projects Funds. Financing is provided by federal, state and county grant revenues and interfund transfers from the General Fund, and Special Revenue Funds.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

- The **Water Utility Fund** accounts for the City's water utility operations, which are financed and operated in a manner similar to a private enterprise. The cost (expenses, including depreciation) of providing these services to the general public on a continuing basis is financed or recovered primarily through user charges.
- The **Sewer Utility Fund** accounts for the operations of the City's sewer distribution lines, which are operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

Additionally, the City reports the following fund types:

- **Internal Service Funds** account for financial transactions related to repairs, replacement, and maintenance of City-owned buildings and vehicles and to account for the City's self-insurance programs. These services are provided to other departments or agencies of the City on a cost reimbursement basis.
- **Agency Funds** account for assets held by the City in a custodial capacity as a trustee or as an agent. These assets include deposits from assessment district's property owners. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- **Private-Purpose Trust Fund** accounts for the assets and liabilities of the former redevelopment agency and the allocated revenue to pay estimated installment payments of enforceable obligations until the obligations of the former redevelopment agency are paid in full and assets have been liquidated.

The City adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which established accounting and financial reporting standards for financial statements of state and local governments.

The City implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65, among other things, amends prior guidance with respect to the treatment of debt issuance costs. Debt issuance costs should be recognized in the period incurred rather than reported on the statement of net position as deferred charges and recognized systematically over the life of the debt. The accounting changes of this statement should be applied retroactive and therefore the City has reported a restatement of beginning net position for any unamortized debt issuance costs (deferred charges) previously reported on the statement of net position to conform.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Residual net position balances in internal service funds are allocated back to the governmental and enterprise funds that they originally charged.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the Enterprise Funds and of the Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprises Funds and Internal Service Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

Cash and Investments

Cash includes demand deposits, certificates of deposits and savings account balances. The California Government Code and the City of Brea's investment policy permit the City of Brea to invest in various instruments and pools. Investments are reported in the accompanying balance sheet at fair value, except for investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

The City reports its investments at fair value in the balance sheet according to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Interest earnings, realized gains and losses and, changes in the fair value of investments are recognized as revenue from the use of money and property in the operating statement.

The City pools cash and investments of all funds except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the proprietary funds' share in the cash and investment pool of the City of Brea. Cash equivalents have an original maturity date of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as both restricted and unrestricted cash.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Restricted Cash and Investments

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The amounts recorded as a receivable due from other governments include sales taxes, property taxes and grant revenues collected or provided by federal, state, County and City governments and unremitted to the City as of June 30, 2013. The County of Orange assesses bills and collects property taxes for the City.

All trade and tax receivables are shown net of an allowance for uncollectibles.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

Inventories of materials and supplies are carried at cost. The City records inventory using a first-in-first-out (FIFO) basis and the consumption method.

Land Held for Resale

The former Brea Redevelopment Agency has acquired land as part of its primary purpose to develop blighted properties. The Successor Agency Housing Special Revenue Fund and the Successor Agency to the former Brea Redevelopment Agency records these parcels as land held for resale in its financial statements. The property is being carried at cost or, if lower, the estimated net realizable value upon entering into an agreement to sell the property. Values recorded on the balance sheet are net of allowances for decline in value.

Capital Assets

Capital assets, which include property, plant, equipment, intangible assets and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

assets with an initial, individual cost of more than \$3,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure assets, once determined that they are not ordinary maintenance, are capitalized in their entirety and do not have a set capitalization threshold. The City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Property, plant and equipment of the primary government and its component units are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Structures and improvements	30 - 50
Equipment	5 - 10
Infrastructure	50 - 99

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the proprietary statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick benefits. Permanent City employees earn from 10 to 20 vacation days a year, depending upon their length of employment, and 12 sick days a year. Employees can carry forward unused sick leave indefinitely. Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave. Any unused sick leave is forfeited upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, proprietary fund types in the fund financial statements and in the fiduciary financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund type statement of net position, or the statement of fiduciary net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Claims and Judgments

The City records a liability for litigation, judgments and claims when it is probable that an asset has been impaired or a liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the Internal Service Funds that account for the City's self-insurance activities.

Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable Fund Balance – This amount indicates the portion of funds balances which cannot be spent because they are either not in spendable form, such as prepaid items, inventories, land held for resale or loans/notes receivable, or legally or contractually required to be maintained intact, such as the principal portion of an endowment.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Restricted Fund Balance – This amount indicates the portion of fund balances which has been restricted a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – This amount indicates the portion of fund balances which can only be used for specific purposes pursuant to formal resolution or ordinance of the City Council.

Assigned Fund Balance – This amount indicates the portion of fund balances which is constrained by the City's intent to be used for specific purpose, but is neither restricted nor committed. The Administrative Services Director is authorized to determine and define the amount of assigned fund balances.

Unassigned Fund Balance – This amount indicates the portion of fund balances that do not fall into one of the above categories.

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to the adoption of a resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the adoption of another resolution. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

In the governmental-wide financial statements and proprietary fund financial statements, net position are classified as follows:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position.”

Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

e. Property Tax

Property tax revenue is recognized on the modified accrual basis, that is, in the fiscal year for which the taxes have been levied providing they become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The County of Orange collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January the preceding fiscal year for which the taxes are levied. Taxes are levied on both real and personal property, as it exists on that date. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31.

f. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. General Budget Policies

The City adheres to the following procedures in establishing the budgetary data reflected in its financial statements:

1. In May of each year, the City Manager submits to the City Council a proposed financial plan with an annual operating budget for the upcoming fiscal year commencing July 1. The operating budget includes proposed expenditures and the sources of financing.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 2: Stewardship, Compliance and Accountability (Continued)

2. Public hearings are conducted at City Council meetings to obtain taxpayer comments.
3. On or before July 1, the financial plan for the fiscal year is adopted by Council action.
4. The City Manager is authorized to transfer funds appropriated with respect to those classifications designated as other services and material and supplies within the same department. The City Manager may transfer appropriated funds from any classification within other expenditure categories to the capital outlay classification within the same department only; however, any revisions that alter the total expenditures of any department must be approved by the City Council. Activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds are included in the annual appropriated budget. As an additional internal control mechanism, project-length financial plans are adopted for the Capital Improvement Program. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level within the General Fund and at the fund level for total expenditures and transfers out for all other budgeted funds.
5. Formal budgetary integration is employed as a management control device during the year for the governmental funds.
6. Legally adopted budgets for all governmental funds are established on a basis consistent with generally accepted accounting principles (GAAP). For the current fiscal year, the HOME Program special revenue fund had no adopted budget.

b. Excess of Expenditures Over Appropriation

For purposes of evaluating legal compliance at the budgetary level of control (that is, the level at which expenditures cannot legally exceed the appropriated amount), control is established at the department level within the General Fund and at the fund level for total expenditures and transfers out for all other budgeted funds.

c. Deficit Fund Balance or Net Position

The following nonmajor funds have a deficit at June 30, 2013:

Community Development Block Grant	\$103,407
Midbury	41,245
Sanitation	204,014

The City expects to eliminate these deficits with anticipated future revenues from grants, special assessments and fee for services.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

As of June 30, 2013, cash and investments are classified in the accompanying financial statements as follows:

	Statement of Net Position	Statement of Fiduciary Net Position	Total
Cash and Investments	\$ 66,903,962	5,859,619	\$ 72,763,581
Restricted assets:			
Cash and Investments	2,271,389	-	2,271,389
Cash and Investments with Fiscal Agents	5,430,993	34,314,873	39,745,866
Total Cash and Investments	\$ 74,606,344	40,174,492	\$ 114,780,836

Cash and investments as of June 30, 2013, consist of the following:

Cash on Hand	\$ 9,690
Deposits with Financial Institutions	3,903,708
Investments	71,121,572
Cash and Investments with Fiscal Agent	39,745,866
Total Cash and Investments	\$ 114,780,836

The City of Brea maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

a. Cash Deposits

The carrying amount of the City's cash deposits was \$3,903,708 at June 30, 2013. Bank balances were \$5,549,352 at that date. The \$1,645,644 difference represents outstanding checks and other reconciling items. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed below:

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 3: Cash and Investments (Continued)

bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

b. Investments

Investments Authorized by the California Government Code and the City's Investment Policy

Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

Funds of the City, other than bond proceeds held in restricted accounts, may be invested in any instrument allowable under current legislation of the State of California (Government Code Section 53600 et sec.) so long as the investment is appropriate and consistent with its Investment Policy taking into consideration the City's investment objectives. Investment instruments may include:

- U.S. Treasury Obligations (Bills, Notes and Bonds)
- U.S. Government Agency Securities and Instrumentalities of Government Sponsored Corporations, including a maximum of 5% in callable bonds issued by such agencies
- Banker's Acceptances
- Commercial Paper
- Repurchase Agreements
- Certificates of Deposit
- Negotiable Certificates of Deposit
- Passbook Savings Accounts
- Interest Bearing Investment Accounts
- Medium Term Corporate Notes
- Bank Money Market Accounts
- Local Agency Investment Fund (State Pool)
- County of Orange Investment Fund (County Pool)
- Other investments that are, or may become, legal investments through the State of California Government Code

Provisions of Government Code Section 53601 are to be adhered to at all times. This includes, but is not limited to, the following restrictions:

- Bankers Acceptances cannot exceed 40% of the portfolio nor exceed 180 days;
- Commercial Paper cannot exceed 25% of the portfolio. Commercial Paper must be rated P-1 (Moody's), A-1 (Standard & Poor's) and cannot exceed 270 days;
- Money Market Funds cannot exceed 20% of the portfolio;
- Medium Term Corporate Notes cannot exceed 30% of the portfolio and must carry a minimum A rating;
- Pass-through securities including Collateralized Mortgage Obligations cannot exceed 20% of the portfolio and must pass the Federal Financial Institution Examination Council (FFIEC) liquidity test;
- Additionally, the City will use the guidelines established by the joint committee of

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 3: Cash and Investments (Continued)

the California Municipal Treasurers Association and the California Society of Municipal Finance Officers as the basis for investing in government investment pools.

For purposes of complying with legal investment limitations, the percentage referenced in the preceding paragraph refers to the maturity value of the portfolio at the time of purchase.

Prohibited Investments

The City does not invest any funds in derivatives, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. The City does not invest any funds in any security that could result in a zero interest accrual if held to maturity.

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the City's investment policy.

Investments in State Investment Pool

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31

The City adopted GASB Statement No. 31, *Accounting and Financial Reporting for certain investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

c. Risk Disclosures

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 3: Cash and Investments (Continued)

Investment Type	Minimum legal rating	Rating as of Year-End			Total Market Value
		Not Rated	AAA	AA	
U.S. Treasury obligations	N/A	\$ -	\$ 10,091,640	\$ -	\$ 10,091,640
U.S. government sponsored enterprise securities	N/A	-	-	25,204,154	25,204,154
Corporate bonds	A	-	-	16,251,852	16,251,852
Money market mutual funds	N/A	219,387	-	-	219,387
California local agency investment fund	N/A	16,690,510	-	-	16,690,510
Commercial paper	N/A	2,664,029	-	-	2,664,029
Cash and investments with fiscal agents:					
Money market mutual funds	N/A	29,972,648	-	-	29,972,648
U.S. Treasury obligations	N/A	-	2,245,878	-	2,245,878
U.S. government sponsored enterprise securities	N/A	-	-	7,527,340	7,527,340
Total		\$ 49,546,574	\$ 12,337,518	\$ 48,983,346	\$ 110,867,438

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The City uses a third party investment manager to manage their investments. The third party investment manager has authority from City Council to execute purchases and sales of investments according to the parameters in their investment policy without the approval of management.

Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer. In addition, GASB 40 requires a separate disclosure if any single issuer comprises more than 5% of the total investment value.

Investments in any one issuer that represents 5% or more of the total City's investments are as follows:

Issuer	Investment Type	Amount
FFCB	U.S. Government Sponsored Enterprise Securities	\$ 7,246,785
FHLB	U.S. Government Sponsored Enterprise Securities	7,236,530
FHLMC	U.S. Government Sponsored Enterprise Securities	9,147,669
FNMA	U.S. Government Sponsored Enterprise Securities	6,356,280

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that at least 25% of the City's portfolio will mature in one year or less. The only exception to these maturity limits will be the investment for the bond proceeds for the Reserve Fund, and funded/ capitalized interest fund. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 3: Cash and Investments (Continued)

As of June 30, 2013, the City had the following investments and original maturities:

	Investment Maturities (in Years)			Total Market Value
	12 months or less	13 to 24 Months	25 to 60 Months	
U.S. Treasury obligations	\$ -	\$ -	\$ 10,091,640	\$ 10,091,640
U.S. government sponsored enterprise securities	1,475,111	3,397,850	20,331,193	25,204,154
Corporate bonds	5,052,869	6,839,270	4,359,713	16,251,852
Money market mutual funds	219,387	-	-	219,387
California local agency investment fund	16,690,510	-	-	16,690,510
Commercial Paper	2,664,029	-	-	2,664,029
Cash and investments with fiscal agents:				
Money market mutual funds	29,972,648	-	-	29,972,648
U.S. Treasury obligations	-	20,008	2,225,870	2,245,878
U.S. government sponsored enterprise securities	85,300	899,860	6,542,180	7,527,340
	<u>\$ 56,159,854</u>	<u>\$ 11,156,988</u>	<u>\$ 43,550,596</u>	<u>\$ 110,867,438</u>

d. Other Investments

As of June 30, 2013 the City holds 687.89 of Class A Preferred Stock in California Domestic Water Company, which is valued at cost in the amount of \$8,444,404. In addition, the City holds 1,674.5 of Common Stock in California Domestic Water Company, which is valued at cost in the amount of \$3,182,116. Therefore, the total value of outstanding shares owned by the City of Brea at June 30, 2013 is \$11,626,520.

Note 4: Notes, Loans, and Deferred Loans Receivable

Notes and loans receivable consist of rehabilitation loans made from Community Development Block Grant ("CDBG") and HOME grant funds to low income individuals that need assistance in rehabilitating their homes or mobile homes to meet current code standards. Amounts are due from the proceeds only upon the sale or transfer of the property. Loans made to mobile home owners are forgiven if the owner lives in the property 5 years or more. Repayments received by the City from homeowners are paid to the County. Thus, the City has offset the notes and loans receivable balance with a liability due to other governments on the accompanying balance sheet. Notes and loans receivable from each of these funds are comprised of the following at June 30, 2013:

CDBG Grant funds	\$ 1,742,863
HOME Grant funds	35,241
Total notes and loans receivable	<u>\$ 1,778,104</u>

The City (through the former redevelopment agency) has made long term loans to various developers and organizations to stimulate low and moderate income housing projects and to low or moderate income individuals to rehabilitate their homes to meet current code standards or to assist them in purchasing a home. Some assistance given gave the City rights to receive "silent seconds" on property when sold to a low and moderate income individual. These "silent seconds" gave the City the right to a portion of the proceeds from the sale of the property. In these cases, if the property has been sold by the developer, the Successor Agency has recorded their portion of the proceeds as notes receivable and deferred revenue.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 4: Notes, Loans, and Deferred Loans Receivable (Continued)

Collection terms of these loans vary and range from 5 years to 55 years. The majority of loans made to developers will be repaid from residual receipts from monies earned on the property once they are built. Home buyer assistance loans begin repayment after 5 years and will be repaid over a 30 year period. For the remainder of loans and notes receivable, the Agency has classified fund balance as "nonspendable" indicating that these resources are not current available resources.

The outstanding balance of these notes and loans are reported in the Successor Agency Housing Fund and are comprised of the following at June 30, 2013:

Home Buyer Assistance Loans	\$ 5,858,679
Rehabilitation Loans	214,079
Developer/ Organization Loans:	
Birch Hills Affordable Apartments	4,750,000
Bonterra Apartments	1,200,000
Imperial Apartments	2,853,000
La Habra Housing	637,000
South Walnut Bungalows	826,000
Olen Point Apartments	1,332,000
Total notes, loans and deferred loans receivable	<u>\$ 17,670,758</u>

Note 5: Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2013, is as follows:

Due To/From Other Funds

Due To Other Funds	Due From Other Funds
	General Fund
Other Governmental Funds	\$ 69,934
Other Enterprise Funds	571,600
Total	<u>\$ 641,534</u>

The interfund balances were a result of routine interfund transactions due to eliminating temporary deficit cash balances, expenditures for administrative costs, housing and capital improvements not cleared prior to year end.

Advances To/From Other Funds

Advances To Other Funds	Advances from Other Funds		Total
	Water Utility Fund	Other Governmental Funds	
General Fund	\$ 1,293,661	\$ 42,169	\$ 1,335,830
Internal Service Funds	3,151,787	-	3,151,787
Total	<u>\$ 4,445,448</u>	<u>\$ 42,169</u>	<u>\$ 4,487,617</u>

CITY OF BRE A

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 5: Interfund Receivables, Payables and Transfers (Continued)

The General Fund and the Internal Service Funds advanced \$4,445,448 to the Water Utility Fund in order to purchase water rights.

The General Fund advanced Other Governmental Funds \$42,169 to fund street improvements.

Transfers In/Out from Other Funds

	Transfers In:			
	General Fund	Capital Projects Funds Capital Improvements	Internal Service Funds	Total Transfers In
Transfers Out:				
Governmental Activities				
General Fund	\$ -	\$ 352,686	\$ 1,574,000	\$ 1,926,686
Other Governmental Funds	1,046,463	1,617,808	142,841	2,807,112
Internal Service Funds	950,000	30,000	-	980,000
Business-type Activities				
Water Utility	2,500	928,611	-	931,111
Sewer Utility	-	722,320	349,110	1,071,430
Other Enterprise Funds	825,000	429,321	-	1,254,321
Total Transfers Out	\$ 2,823,963	\$ 4,080,746	\$ 2,065,951	\$ 8,970,660

- The General Fund transferred \$352,686 to the Capital Improvements Fund for reimbursement of capital improvement program projects.
- The General Fund transferred \$1,574,000 to the Internal Service Funds for risk management purposes.
- Other Non-major Governmental Funds transferred \$1,046,463 to the General Fund for general purposes.
- Other Non-major Governmental Funds transferred \$1,617,808 to the Capital Improvements Fund for reimbursement of capital improvement program projects.
- Other Non-major Governmental Funds transferred \$142,841 to the Internal Services Fund for general purposes.
- The Internal Service Funds transferred \$950,000 to the General Fund for general purposes.
- The Internal Service Funds transferred \$30,000 to the Capital Improvements Fund for reimbursement of capital improvement program projects.
- The Water Utility Fund transferred \$2,500 to the General Fund for general purposes.
- The Water Utility Fund transferred \$928,611 to reimburse the Capital Improvements Fund for capital improvement program projects that are not subject to being capitalized.
- The Sewer Utility Fund transferred \$722,320 to reimburse the Capital Improvements Fund for capital improvement program projects that are not subject to being capitalized.
- The Sewer Utility Fund transferred \$349,110 to the Internal Services Fund for the purchase of a sewer related vehicle.

CITY OF BRE A

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 5: Interfund Receivables, Payables and Transfers (Continued)

- The Other Enterprise Funds transferred \$825,000 to the General Fund which the majority of this transfer was from the Sanitation Fund for franchise fees collected from our contract refuse hauling company.

- The Other Enterprise Funds transferred \$429,321 to reimburse the Capital Improvements Fund for capital improvement program projects that are not subject to being capitalized.

Note 6: Capital Assets

Summary of changes in capital assets for the governmental activities for the year ended June 30, 2013, is as follows:

	Beginning Balance	Adjustments	Transfers	Additions	Disposals	Ending Balance
Governmental Activities:						
Capital assets, not being depreciated:						
Land	\$ 45,416,235	\$ -	\$ -	\$ 253,000	\$ -	\$ 45,669,235
Construction-in-progress	2,427,548	-	(3,112,481)	5,352,244	-	4,667,311
Total Capital Assets, not being depreciated	47,843,783	-	(3,112,481)	5,605,244	-	50,336,546
Capital assets, being depreciated:						
Structures and improvements	83,490,273	-	495,512	-	-	83,985,785
Equipment	24,300,384	461,550	-	1,514,453	(1,551,383)	24,725,004
Infrastructure	113,196,834	-	2,616,969	129,364	-	115,943,167
Total Capital Assets, being depreciated	220,987,491	461,550	3,112,481	1,643,817	(1,551,383)	224,653,956
Less accumulated depreciation:						
Structures and improvements	(33,099,503)	-	-	(2,897,065)	-	(35,996,568)
Equipment	(17,479,847)	-	-	(1,718,085)	1,464,482	(17,733,450)
Infrastructure	(45,772,493)	-	-	(3,036,773)	-	(48,809,266)
Total Accumulated depreciation	(96,351,843)	-	-	(7,651,923)	1,464,482	(102,539,284)
Total capital assets, being depreciated, net	124,635,648	461,550	3,112,481	(6,008,106)	(86,901)	122,114,672
Governmental Activities Capital Assets, Net						
	\$ 172,479,431	\$ 461,550	\$ -	\$ (402,862)	\$ (86,901)	\$ 172,451,218

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 6: Capital Assets (Continued)

	Beginning Balance	Transfers	Additions	Disposals	Ending Balance
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,074,536	\$ -	\$ -	\$ -	\$ 2,074,536
Construction-in-progress	5,186,103	(516,827)	4,264,551	(48,534)	8,885,293
Total Capital Assets, not being depreciated	7,260,639	(516,827)	4,264,551	(48,534)	10,959,829
Capital assets, being depreciated:					
Equipment	293,432	-	35,693	(12,768)	316,357
Infrastructure	99,037,823	516,827	-	-	99,554,650
Total Capital Assets, being depreciated	99,331,255	516,827	35,693	(12,768)	99,871,007
Less accumulated depreciation:					
Equipment	(291,217)	-	(30,956)	12,768	(309,405)
Infrastructure	(41,822,426)	-	(2,280,913)	-	(44,103,339)
Total Accumulated depreciation	(42,113,643)	-	(2,311,869)	12,768	(44,412,744)
Total capital assets, being depreciated, net	57,217,612	516,827	(2,276,176)	-	55,458,263
Business-Type Activities Capital Assets, Net	\$ 64,478,251	\$ -	\$ 1,988,375	\$ (48,534)	\$ 66,418,092

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
City:	
General government	\$ 1,380,808
Public safety	565,419
Community development	20,146
Community services	549,752
Public works	4,304,325
Total City	6,820,450
Internal service:	
Vehicle maintenance	740,084
Building occupancy	91,389
Total internal service	831,473
Total Governmental Activities	\$ 7,651,923
Business-Type Activities:	
Water utility	\$ 1,959,759
Sewer utility	350,001
Urban runoff	937
Information Technology External Support	1,172
Total Business-Type Activities	\$ 2,311,869

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 7: Long-Term Debt

a. Governmental Activities Long-Term Debt

A summary of changes in governmental activities long-term debt for the year ended June 30, 2013, is noted below:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Lease Revenue Bonds					
2010 lease revenue bonds	\$ 2,760,000	\$ -	\$ -	\$ 2,760,000	\$ -
Capital leases payable	5,161,902	-	(502,338)	4,659,564	490,155
Compensated absences payable	2,963,869	3,243,254	(3,501,046)	2,706,077	2,029,557
Other post employment benefits obligation	3,142,728	1,324,000	(776,718)	3,690,010	-
Claims and Judgments (Note 10)	5,441,412	2,257,620	(2,627,534)	5,071,498	2,448,911
	<u>\$ 19,469,911</u>	<u>\$ 6,824,874</u>	<u>\$ (7,407,636)</u>	<u>\$ 18,887,149</u>	<u>\$ 4,968,623</u>

Lease Revenue Bonds

2010 Lease Revenue Bonds

The \$2,835,000 principal amount of the 2010 Lease Revenue Bonds was issued by the Brea Public Financing Authority in April 2010. The proceeds will be used to finance a portion of the costs of the installation of photovoltaic energy systems and energy efficient improvements on city property.

The Authority elected to treat the bonds as "Build America Bonds" under Section 54AA(g)(2) of the Tax Code which made the Authority eligible for cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the bonds. These are referred to as "refundable credits" in the bond indenture and are recorded as intergovernmental revenue in the accompanying basic financial statements. These refundable credits are pledged for the payment of the bonds.

Bonds maturing on April 1, 2011 are serial bonds payable in one annual installment of \$75,000 bearing interest of 1.31%. Bonds maturing on April 1, 2030, in the amount of \$1,260,000 are term bonds and bear interest at 6.734%. Installments are \$380,000, \$420,000 and \$460,000 and are due in 2028, 2029 and 2030. Bonds maturing on April 1, 2036, in the amount of \$1,500,000, are term bonds and bear interest at 6.884%. Installments range from \$165,000 to \$510,000 every year from 2031 to 2036.

Bonds are payable from the lease payments to be made by the City of Brea for the leasing of certain real property pursuant to the lease agreement dated April 1, 2010. The required reserve for the 2010 lease revenue bonds is \$261,807. As of June 30, 2013, the reserve amount was \$263,094.

The outstanding balance at June 30, 2013, was \$2,760,000.

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 7: Long-Term Debt (Continued)

The debt service schedule of the 2010 Lease Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$ -	\$ 188,108	\$ 188,108
2015	-	188,108	188,108
2016	-	188,108	188,108
2017	-	188,108	188,108
2018	-	188,108	188,108
2019-2023	-	940,542	940,542
2024-2028	380,000	940,542	1,320,542
2029-2033	1,735,000	524,960	2,259,960
2034-2038	645,000	91,557	736,557
Total	\$ 2,760,000	\$ 3,438,141	\$ 6,198,141

Capital Leases

In February 2006, the City entered into a lease agreement with LaSalle National Leasing Corporation to acquire new energy management equipment. Per the lease agreement, the semi annual payments of \$87,091 are due in February and August of each year with the final payment due in February 2018. The outstanding balance at June 30, 2013, was \$769,564.

In April 2010, the City entered into Equipment Lease Purchase Agreement with Banc of America Leasing & Capital, LLC to finance the Brea Civic and Cultural Center Project, the Brea Community Center Project and Berry Street Reservoir Project. Per the lease agreement, semi annual payments ranging from \$11,467 to \$492,288 are due in April and October with the final payment due in April 2027. The outstanding balance at June 30, 2013, was \$3,890,000.

The gross amount of assets acquired through capital lease is as follows:

Land	\$ 924,850
Equipment	9,549,414
Total	\$ 10,474,264

Total capital leases payable outstanding at June 30, 2013, was \$4,659,564.

The debt service schedules of these leases are as follows:

Fiscal Year Ending June 30,	
2014	\$ 775,476
2015	772,866
2016	773,964
2017	488,447
2018	499,726
2019-2023	1,802,163
2024-2028	1,579,808
Total minimum lease payments	6,692,450
Less: amount representing interest	(2,032,886)
Present value of minimum lease payment	\$ 4,659,564

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 7: Long-Term Debt (Continued)

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The Governmental Activities' liability, at June 30, 2013, will be paid in future years from the General Fund, Vehicle Maintenance Fund, and Building Occupancy Fund in amounts of \$2,640,817, \$26,921 and \$38,339, respectively. Total compensated absences at June 30, 2013, were \$2,706,077.

Other Post Employment Benefits Obligation

Other post employment benefits obligation will be repaid in future years from the general fund. See Note 9 for more information. The amount of other post employment benefits obligation at June 30, 2013, was \$3,690,010.

b. Business-Type Activities Long-Term Debt

A summary of changes in business-type activities long-term debt for the year ended June 30, 2013, is noted below:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Water Revenue Bonds					
2009 Water Revenue Bonds	\$ 24,970,000	\$ -	\$ (510,000)	\$ 24,460,000	\$ 520,000
2010 Water Revenue Bonds	12,295,000	-	(430,000)	11,865,000	455,000
Compensated absences payable	215,757	378,064	(382,422)	211,399	158,549
Totals	\$ 37,480,757	\$ 378,064	\$ (1,322,422)	36,536,399	\$ 1,133,549
			Bond discount	(320,528)	
			Bond premium	59,083	
			Total long-term debt	\$ 36,274,954	

Water Revenue Bonds

2009 Water Revenue Bonds

In May of 2009, the Brea Public Financing Authority issued \$25,800,000 of 2009 Water Revenue Bonds structured into two series. The \$12,855,000 2009 Water Revenue Refunding Bond Series A and the \$12,945,000 2009 Water Revenue Bonds, Series B. The proceeds from Series A bonds was used to current refund all of the remaining outstanding 1998 Water Revenue Bonds and proceeds from the Series B Bonds financed the acquisition of additional water rights and various capital projects relating to the Water System. Proceeds were also used to fund a debt service reserve fund and pay cost of issuance expenses.

Series A bonds consist of \$12,855,000 serial bonds and term bonds. Bonds maturing in the years 2010 through 2027 are serial bonds payable in annual installments of \$335,000 to \$885,000 and bear interest at 2.0% to 4.75%. Bonds maturing July 1, 2029, in the amount of \$1,375,000 are term bonds and bear interest at 4.75%. Series B bonds consist of \$12,945,000 term bonds. Bonds mature from 2029 through 2039 in annual installments of \$525,000 to \$1,495,000 and bear interest at 6.75%.

The required reserve for the 2009 Water Revenue Bonds is \$1,819,094. As of June 30, 2013, the reserve was \$1,911,112 being held in the Water Fund of the City of Brea. The outstanding balance at June 30, 2013, was \$24,460,000.

CITY OF BRE A

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

Note 7: Long-Term Debt (Continued)

2010 Water Revenue Bonds

In April of 2010, the Brea Public Financing Authority sold \$12,295,000 of water revenue bonds into two series. Both Series A and B were issued to finance a portion of the costs of the installation of photovoltaic energy systems and energy efficient improvements at the City. Proceeds were also used to fund a debt service reserve fund and pay issuance costs and capitalized interest on the bonds through the end of the construction phase.

Series A bonds consist of \$2,410,000 of tax exempt serial bond maturing on July 1 of each year beginning in 2012 through 2016. Annual principal installments range from \$430,000 to \$540,000. Interest is payable July 1 and January 1 of each year and range from 2% to 4%.

Series B bonds consist of \$9,885,000 of federally taxable "Build America Bonds." \$2,195,000 of these bonds are serial bonds maturity on July 1 of each year beginning in 2017 through 2025. Annual principal installments range from \$125,000 to \$385,000. Interest payments are due July 1 and January 1 of each year and range from 4.37% to 5.99%. The remaining \$7,690,000 are term bonds due maturing on July 1, 2030 and July 1, 2036 in the amounts of \$2,685,000 and \$5,005,000. The Series B bonds are also subject to mandatory sinking fund requirements. These "Build America Bonds" under Section 54AA(g)(1) of the Tax Code make the Authority eligible for cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the bonds. These are referred to as "refundable credits" in the bond indenture and are recorded as federal interest subsidy revenue in the accompanying basic financial statements. These refundable credits are pledged for the payment of the bonds.

The required reserve for the 2010 Water Revenue Bonds, Series A and B is \$233,579 and \$958,060, respectively. As of June 30, 2013, the reserve amount was \$252,434 and \$1,034,903, respectively.

The outstanding balance at June 30, 2013, was \$11,865,000.

Water Revenue Bonds Debt Coverage Requirement

The City has covenanted that gross revenues less operation and maintenance costs as defined in the bond document shall be at least 1.25 times the sum of all debt service on all parity obligations. Gross revenues for the year ended June 30, 2013, were \$16,224,431. Operation and maintenance costs for the year ended June 30, 2013, were \$10,700,131 excluding depreciation. This resulted in a debt coverage ratio of 1.52 for the year ended June 30, 2013.

Pledged Revenues

Future net revenues of the Water Utility Fund for each year's debt service payment are pledged until the extinguishment of the debt in 2040 and are not available for other uses. Remaining principal and interest payments on this debt as of June 30, 2013, is \$71,450,800.

CITY OF BRE A

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

Note 7: Long-Term Debt (Continued)

The debt service schedules of these Water Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$ 975,000	\$ 2,030,026	\$ 3,005,026
2015	1,015,000	2,003,651	3,018,651
2016	1,060,000	1,970,507	3,030,507
2017	1,110,000	1,930,613	3,040,613
2018	715,000	1,896,040	2,611,040
2019-2023	4,345,000	8,978,518	13,323,518
2024-2028	6,005,000	7,789,907	13,794,907
2029-2033	8,355,000	5,751,483	14,106,483
2034-2038	9,815,000	2,575,255	12,390,255
2039-2040	2,930,000	199,800	3,129,800
Total	<u>\$ 36,325,000</u>	<u>\$ 35,125,800</u>	<u>\$ 71,450,800</u>

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. This liability at June 30, 2013, will be paid in future years by the enterprise funds. Total compensated absences at June 30, 2013, were \$211,399.

c. Debt Without Government Commitment

Assessment District Bonds

The special assessment bonds are secured by valid assessment liens upon certain lands within the special assessment district and are not direct liabilities of the City and, accordingly, are not included in the accompanying general purpose financial statements. The City has no obligation beyond the balances in the designated agency funds for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. Neither the full faith and credit nor taxing power of the City is pledged to the payment of the bonds. The City acts solely as an agent for those paying assessments and for the bondholders.

In December 1997, the City issued for and on behalf of the Community Facilities District No. 1996-1 (Downtown Brea Public Improvements) \$3,235,000 aggregate principal amount of 1997 Special Tax Bonds to finance the acquisition of certain public improvements with appurtenant work and incidental expenses within the District. The Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are payable from proceeds of annual special tax levied on property within the District. Bonds maturing in the years 1999 to 2012 are serial bonds payable in annual installments of \$60,000 to \$145,000 while bonds maturing in the year 2016, in the amount of \$670,000, and in the year 2021, in the amount of \$1,095,000 are term bonds. The interest rates on the bonds range from 4.20% to 6.00%. The outstanding balance at June 30, 2013, was \$1,765,000.

In December 1999, the City borrowed for and on behalf of the Community Facilities District No. 1990-1 (Imperial Center East) \$1,478,000 principal amount of

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 7: Long-Term Debt (Continued)

1999 Special Tax Refunding Note to current refund the District's 1990 Special Tax Bonds. The money borrowed was pursuant to the Mello-Roos Community Facilities Act of 1982 and is payable from the proceeds of an annual special tax levied on the property within the District. The note matures from 2000 to 2015, with annual installments ranging from \$99,000 to \$122,000 per year. The interest rate on the note is 5.780%. The outstanding balance at June 30, 2013, was \$358,000.

In September 2003, the City issued for and on In behalf of the Community Facilities District No. 1988-1 (Fairway Center) \$2,580,000 aggregate principal amount of 2003 Special Tax Refunding Bonds to current refund in full the Community Facilities District No. 1988-1 (Fairway Center) 1997 Special Tax Refunding Bonds. The bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are payable from the proceeds of an annual special tax levied on property within the District. The bonds mature from 2004 through 2026, with annual installments ranging from \$65,000 to \$190,000 per year. The interest rates on the bonds range from 1.75% to 6.10%. The outstanding balance at June 30, 2013, was \$1,900,000.

In June 2005, the Brea Public Financing Authority issued \$15,405,000 Brea Public Financing Authority 2005 Series A Local Agency Revenue Bonds for and on behalf of the City of Brea Community Facilities District No. 1997-1 (Olinda Heights Public Improvements) and the Brea Olinda Unified School District Community Facilities District No. 95-1 (Olinda Heights). The Brea Olinda Unified School District Community Facilities District Bonds are not part of the City; therefore, additional information is not provided. \$6,665,000 of the City of Brea Community Facilities District Bonds were to current refund in full of the Community facilities District No. 1997-1 (Olinda Heights Public Improvements) 1998 Special Tax Bonds. The bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, and are payable from the proceeds of annual special tax to be levied on property. The bonds mature from 2006 to 2028, with annual installments ranging from \$195,000 to \$430,000 per year. The interest rates on the bonds range from 2.500% to 4.125%. The outstanding balance at June 30, 2013, was \$5,165,000.

In December 2009, the City of Brea on behalf of the City of Brea Community Facilities District No. 2008- 2 issued \$8,145,000 in bonds known as the Brea Plaza Area Public Improvements 2009 Special Tax Bonds to finance acquisition and construction of certain public capital improvements in Brea Plaza. Proceeds will also be used to pay administrative expenses of the Community Facilities District, bond issuance costs, and capitalized interest on the bonds through the end of the construction. These bonds are not obligations of the City and will be paid solely from special tax revenues levied on certain property within the Community Facilities District. The bonds mature from 2012 to 2039, with annual installments including sinking fund requirements range from \$50,000 to \$765,000 per year. The interest rates on the bonds range from 4% to 7%. The outstanding balance at June 30, 2013, was \$8,095,000.

Multifamily Housing Revenue Bonds

In July 2010, the Agency on behalf of Tonner Hills Housing Partners, LP (the "Borrower"), was authorized to issue \$5,858,319 and \$7,741,681 Brea Redevelopment Agency Multifamily Housing Revenue Bonds (Tonner Hills Apartment Homes) 2010 Series A-1 and A-2, respectively, for the purpose of providing funding

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 7: Long-Term Debt (Continued)

necessary for the acquisition, construction and equipping of a 94-unit multifamily rental housing project in the City. The Agency and the Borrower also entered into a non-interest bearing loan agreement in amount of \$1,200,000 (See Note 4). These bonds are not the obligations of the Agency and will be paid solely from future rent revenue. The outstanding balance is determined when a construction draw requisition is submitted to the bank for payment, limited up to the authorized amounts for each of the series. Currently, the bonds are only paying interest to bondholder for debt service payment. When the bonds are converted, then the Borrower will pay principal and interest per bond conversion. The outstanding balance at June 30, 2013, was \$3,967,902 and \$0 for Series A-1 and Series A-2, respectively.

Note 8: Defined Benefit Pension Plan

Plan Description

The City of Brea contributes to the California Public Employees Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statutes and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. As of July 1, 2011, employees covered under the miscellaneous plan and the safety plan were required to contribute 1.125% and 2.250%, respectively, of the required employee contributions. The City contributes the remaining employee portions on behalf of employees covered under the safety and miscellaneous plans of 5.875% and 6.750%, respectively. For the year ended June 30, 2013, the amount contributed by the City on behalf of the employees was \$1,301,219. The City is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The employer's required contribution rate for the year ended June 30, 2013, was 12.332% for miscellaneous employees and 30.959% for safety employees. Separately funded plans have been established for each employee group. Benefit provisions and all other requirements are established by state statute and City contract with employee bargaining groups.

Required Contribution

For the year ended June 30, 2013, the City's annual pension cost (employer contribution) of \$3,994,912 for safety and \$1,863,614 for miscellaneous employees was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 8: Defined Benefit Pension Plan (Continued)

A summary of principle assumptions and methods used to determine the annual required contribution is shown below:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 Years as of the Valuation Date for Miscellaneous Employees 29 Years as of the Valuation Date for Safety Employees
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expense)
Projected Salary Increases	3.55% to 14.45% depending on age, service and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Safety Plan Three-Year Trend Information			
Fiscal Year	Annual Pension Cost (APC) (Employer Contribution)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$ 3,905,652	100%	\$ -
6/30/2012	4,588,912	100%	-
6/30/2013	3,994,912	100%	-

Miscellaneous Plan Three-Year Trend Information			
Fiscal Year	Annual Pension Cost (APC) (Employer Contribution)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$ 1,404,049	100%	\$ -
6/30/2012	1,673,190	100%	-
6/30/2013	1,863,614	100%	-

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 8: Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

Safety Employees – As of June 30, 2012, the most recent actuarial valuation date, the plan was 79.7 percent funded. The actuarial accrued liability for benefits was \$191,751,750, and the actuarial value of assets was \$152,827,533, resulting in an unfunded actuarial accrued liability ("UAAL") of \$38,924,217. The covered payroll (annual payroll of active employees covered by the plan) was \$14,695,318, and the ratio of the UAAL to the covered payroll was 264.9 percent.

Schedule of Funding Progress for PERS Safety Plan						
Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
6/30/2010	\$ 174,883,959	\$ 138,850,541	\$ 36,033,418	79.4%	\$ 15,557,390	231.6%
6/30/2011	186,247,711	146,056,253	40,191,458	78.4%	15,035,741	267.3%
6/30/2012	191,751,750	152,827,533	38,924,217	79.7%	14,695,318	264.9%

Miscellaneous Employees – As of June 30, 2012, the most recent actuarial valuation date, the plan was 85.5 percent funded. The actuarial accrued liability for benefits was \$102,226,046 and the actuarial value of assets was \$87,360,704 resulting in an UAAL of \$14,865,342. The covered payroll (annual payroll of active employees covered by the plan) was \$14,569,909, and the ratio of the UAAL to the covered payroll was 102.0 percent.

Schedule of Funding Progress for PERS Miscellaneous Plan						
Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
6/30/2010	\$ 91,534,605	\$ 79,178,456	\$ 12,356,149	86.5%	\$ 14,418,707	85.7%
6/30/2011	97,834,352	83,443,780	14,390,572	85.3%	14,691,017	98.0%
6/30/2012	102,226,046	87,360,704	14,865,342	85.5%	14,569,909	102.0%

Note 9: Other Post Employment Benefits

Plan Description

In addition to providing pension benefits, the City provides medical insurance for certain employees after they separate from the City, through a single-employer defined benefit plan as provided under the City's contractual agreements with members from each unit. Members who retire from the City on or after attaining the age of 50 with at least five years of service are eligible for these benefits. A separate annual financial report is not available for this plan.

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 9: Other Post Employment Benefits (Continued)

Funding Policy

Currently the City funds retiree healthcare benefits on a pay-as-you-go basis, paying a maximum of \$350 per month for retiree benefits from the City funds as they are due with no pre-funding for future years. The City recognizes expenditure for its share of the annual premiums as these benefits become due. For fiscal year ended June 30, 2013, the City paid \$776,718 for benefits of 207 retired employees.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 1,443,000
Interest on net pension obligation	110,000
Adjustment to ARC	<u>(229,000)</u>
Annual OPEB cost	1,324,000
Contribution made	<u>776,718</u>
Increase (decrease) in net OPEB obligation	547,282
Net OPEB obligation - July 1, 2012	<u>3,142,728</u>
Net OPEB obligation - June 30, 2013	<u>\$ 3,690,010</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013, and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 1,447,000	\$ 816,909	56.46%	\$ 2,317,338
6/30/2012	1,523,000	697,610	45.80%	3,142,728
6/30/2013	1,324,000	776,718	58.66%	3,690,010

Funded Status and Funding Progress

The required contribution is based on projected pay-as-you-go financing requirements with additional amount to prefund benefits as determined annually by the City under an actuarial valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends.

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 9: Other Post Employment Benefits (Continued)

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The schedule of funding progress below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This is the latest information available:

Schedule of Funding Progress for OPEB						
Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
6/30/2007	\$ 17,585,000	\$ -	\$ 17,585,000	0.0%	\$ 28,856,000	60.9%
6/30/2009	17,269,000	-	17,269,000	0.0%	27,603,000	62.6%
6/30/2011	18,197,000	-	18,197,000	0.0%	24,983,000	72.8%

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation, dated June 30, 2011, used the Entry Age Normal actuarial cost method, a discount rate of 4.00% which is the long-term expected rate of return on the City's investment fund, an annual general inflation rate of 3.00%, and an annual aggregate payroll increase of 3.25%. Annual healthcare cost trend 8.5% to 8.9%, reduced by decrements of 0.5% per year to an ultimate rate of 5% after 2021. The unfunded accrued actuarial liability (UAAL) is being amortized over a closed 26-year period as a level percentage of payroll. As of the actuarial valuation date, the City had 294 active participants and 173 retirees receiving benefits.

Note 10: Self-Insurance Program

The City is a member of the California Insurance Pool Authority ("CIPA"). CIPA, a consortium of 12 cities in Los Angeles County and Orange County, California, that was established to pool resources, share risks, purchase excess insurance and to share costs for professional risk management and claims administration.

At June 30, 2013, the City was self-insured for workers' compensation up to \$400,000 per occurrence and general liability and auto liability insurance up to \$350,000 per occurrence. The coverage for general and auto liability extends to \$20,000,000 per occurrence with a \$20,000,000 annual pooled aggregate. Member agencies may be assessed the difference

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 10: Self-Insurance Program (Continued)

between funds available and the \$20,000,000 annual pooled aggregate in proportion to their annual premium. Settled claims have not exceeded this commercial coverage in the past three years.

The Governing Board is comprised of one member from each participating city and is responsible for the selection of management and for the budgeting and financial management of CIPA. At the termination of the risk pool agreement and after all claims have been settled, any excess or deficit will be divided among the cities in proportion to the aggregate amount of contribution made by each.

At June 30, 2013, \$5,071,498 has been accrued for general liability and workers' compensation claims in the Internal Service Risk Management Fund. These amounts represent estimates of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2013, is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses.

Changes in the claims liability amounted to the following for the years ended June 30:

Fiscal Year Ended	Beginning Balance	Claims and Changes in Estimates	Claim Payments	Ending Balance
2011	\$ 3,952,197	\$ 2,428,965	\$ (2,039,099)	\$ 4,342,063
2012	4,342,063	2,926,186	(1,826,837)	5,441,412
2013	5,441,412	2,257,620	(2,627,534)	5,071,498

During the past three fiscal years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 11: Fund Balance Classifications

Fund balances in the governmental funds at June 30, 2013, have been classified as follows:

	General	Special Revenue Fund Successor Agency Housing Fund	Capital Projects Fund Capital Improvements	Other Governmental Funds	Total
Nonspendable:					
Prepaid items	\$ 339,320	\$ -	\$ -	\$ -	\$ 339,320
Advances to other funds	1,335,830	-	-	-	1,335,830
Total nonspendable	1,675,150	-	-	-	1,675,150
Restricted:					
Debt service	291,130	-	-	-	291,130
Prop 172	441,562	-	-	-	441,562
COPS	109,336	-	-	-	109,336
Lighting and maintenance districts	349,557	-	-	-	349,557
Low and moderate income housing	-	21,616,585	-	-	21,616,585
Capital projects	-	-	13,554,824	-	13,554,824
Gas tax	-	-	-	1,818,648	1,818,648
Narcotic enforcement	-	-	-	1,456,455	1,456,455
Air quality improvement	-	-	-	102,167	102,167
Park development	-	-	-	808,562	808,562
Measure M	-	-	-	788,775	788,775
Affordable housing trust	-	-	-	2,048,030	2,048,030
Blackstone CFD	-	-	-	1,731,152	1,731,152
Capital and mitigation improvement	-	-	-	7,259,260	7,259,260
Storm drain	-	-	-	1,003,584	1,003,584
Total restricted	1,191,585	21,616,585	13,554,824	17,016,633	53,379,627
Committed:					
Asset replacement	7,496,895	-	-	-	7,496,895
Total assigned	7,496,895	-	-	-	7,496,895
Assigned:					
Community center	667,696	-	-	-	667,696
Total assigned	667,696	-	-	-	667,696
Unassigned:					
General Fund	21,224,287	-	-	-	21,224,287
Other Governmental Funds	-	-	-	(144,652)	(144,652)
Total unassigned	21,224,287	-	-	(144,652)	21,079,635
Total	\$ 32,255,613	\$ 21,616,585	\$ 13,554,824	\$ 16,871,981	\$ 84,299,003

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 12: Construction and Other Significant Commitments

The following material construction commitments existed at June 30, 2013:

Project Name	Contract Amount	Expenditures to date as of June 30, 2013	Remaining Commitments
Imperial Highway Greenbelt Improvements/ Valencia Avenue Lanscaped Median Improvements	\$ 199,976	\$ 62,986	\$ 136,990
Tracks at Brea Trail Project	200,000	-	200,000
Fire Station #4	309,000	-	309,000
Brea Boulevard Traffic Signal Synchronization	250,000	-	250,000
Totals			<u>\$ 895,990</u>

Note 13: Contingencies

The City is a defendant in several pending lawsuits of a nature common to many similar jurisdictions. City management estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial position of the City.

The City incurs various costs under federal and state grant reimbursement programs and records the related revenue and receivables for grant claims. Such grant claims are subject to final audit by federal and state agencies.

Note 14: California Redevelopment Agency Dissolution

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Brea that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On August 25, 2011, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2011-085.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directed the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers was not contractually committed to a third party for the expenditure or encumbrance of those assets, the State

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

Controller was required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private purpose trust fund) in the financial statements of the City.

On December 4, 2012, the Successor Agency of the Brea Redevelopment Agency assigned to the City of Brea the housing assets, rights, powers and obligations of the Former Brea Redevelopment Agency. As a result, an extraordinary gain and loss in the amount of \$21,522,303 was recognized between the City of Brea and the Successor Agency of the Brea Redevelopment Agency for the transfer of the housing assets.

a. Cash and investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments	\$ 1,831,514
Cash and investments with fiscal agent	<u>32,574,555</u>
	<u>\$ 34,406,069</u>

b. Loans Receivable

The City (through the former redevelopment agency) has made long term loans to various developers and organizations to stimulate development in the City and remove blight in designated project areas. The outstanding balance at June 30, 2013, is as follows:

Rehabilitation Loans	\$ 50,580
Developer/ Organization Loans:	
Brea Improv	459,976
Brea Olinda Unified School District	<u>2,394,074</u>
Total notes, loans and deferred loans receivable	<u>\$ 2,904,630</u>

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

c. Long-Term Debt

A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2013, follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Due Within One Year
Tax Allocation Bonds					
2001 Tax Allocation Refunding Bonds, Series A	\$ 41,135,000	\$ -	\$ (2,400,000)	\$ 38,735,000	\$ 2,530,000
2003 Tax Allocation Bonds	102,655,377	486,251	(4,175,000)	98,966,628	4,340,000
2008 Tax Allocation Bonds Series A	16,565,000	-	(775,000)	15,790,000	815,000
2008 Tax Allocation Bonds Series B	1,830,000	-	(65,000)	1,765,000	70,000
2011 Tax Allocation Bonds Series A	19,492,764	1,113,149	-	20,605,913	28,489
2011 Tax Allocation Bonds Series B	10,295,000	-	-	10,295,000	85,000
Lease Revenue Bonds					
2004 Refunding Lease Revenue Bonds	2,910,000	-	(240,000)	2,670,000	255,000
2010 Refunding Lease Revenue Bonds	8,595,000	-	(725,000)	7,870,000	750,000
	<u>\$ 203,478,141</u>	<u>\$ 1,599,400</u>	<u>\$ (8,380,000)</u>	<u>196,697,541</u>	<u>\$ 8,873,489</u>
			Unamortized bond discounts and premiums	<u>1,409,036</u>	
				<u>\$ 198,106,577</u>	

Tax Allocation Bonds

2001 Tax Allocation Refunding Bonds, Series A

In June 2001, the former Brea Redevelopment Agency issued \$56,170,000 principal amount of Brea Redevelopment Agency 2001 Tax Allocation Refunding Bonds, Series A. The proceeds were used in the aggregate to: 1) repay a portion of a loan made to the Agency by the Brea Public Financing Authority in connection with the 1991 Tax Allocation Revenue Bonds, Series A issued by the Authority and to defease a corresponding portion of such bonds, and 2) repay a loan made to the Agency by the Brea Public Financing Authority in connection with the 1991 Tax Allocation Revenue Bonds, Series C and to defease the corresponding outstanding bonds.

The bonds consist of \$41,375,000 serial bonds maturing in the years 2002 to 2020, payable August 1 in annual installments of \$710,000 to \$3,535,000. The bonds bear interest at 4.0% to 5.5%. Bonds maturing after August 1, 2020, in the amount of \$14,795,000 are term bonds and bear interest at 5.0%.

Serial bonds maturing on or after August 1, 2012, are subject to redemption in whole or in part at the option of the Agency from any available source of funds. Term bonds maturing on August 1, 2023, are subject to mandatory redemption in part by lot on August 1, 2021, August 1, 2022 and August 1, 2023, in the amounts of \$3,730,000, \$3,400,000 and \$7,665,000, respectively, from sinking fund payments made by the Agency.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

The bonds are secured by a first pledge on all of the tax revenues on parity with the 2003 and 2011 Tax Allocation Bonds. Bonds are further secured by a financial guarantee insurance policy in an amount equal to the Series A bond reserve requirement; no cash reserve is required to be established.

The outstanding balance at June 30, 2013, was \$38,735,000.

2003 Tax Allocation Bonds

In July 2003, the former Brea Redevelopment Agency issued \$120,497,866 principal amount of 2003 Redevelopment Project AB Tax Allocation Bonds. The proceeds were used to: 1) current refund the Agency's Brea Redevelopment Agency 1993 Tax Allocation Refunding Bonds, 2) pay the costs of additional redevelopment activities with respect to Project Area AB, 3) pay the cost of a reserve fund security instrument, and 4) pay costs of issuance related to the bonds.

Bonds maturing in the years 2004 to 2026, are current interest bonds payable August 1 in annual installments of \$875,000 to \$7,695,000, while bonds maturing in the years 2028 to 2030, are capital appreciation bonds payable August 1 in annual installments of \$2,151,714 to \$1,801,707. Bonds maturing in the years 2027 to 2032, in the amount of \$16,475,000 are term bonds.

The current interest bonds bear interest at 2.00% to 4.40% due February 1 and August 1, of each year. The term bonds bear interest at 4.45% and are due August 1, 2032. The capital appreciation bonds have a face value of \$22,640,000. By their nature, there is no regular interest payments associated with capital appreciation bonds. The "interest" on the debt results from the difference between the amounts paid by the investors when the debt was issued and the significantly larger value at maturity. The \$22,640,000 of face value capital appreciation bonds were initially recorded at the amount of proceeds received, \$5,987,866. Each year, the outstanding balance is increased for the accretion of interest associated with the bonds.

A financial guaranty insurance policy has been issued and, accordingly, no cash reserve balance is required. Bond payments are secured by a first pledge on all of the tax revenues on parity with the 2001 and 2011 bonds.

The outstanding balance at June 30, 2013, was \$98,966,628.

2008 Tax Allocation Revenue Bonds, Series A and B

In October 2008, the Brea Public Financing Authority issued its 2008 Tax Allocation Revenue Bonds, Series A and 2008 Tax Allocation Revenue Bonds, Series B in the amount of \$18,900,000 and \$2,025,000 respectively to make three separate loans to the Brea Redevelopment Agency pursuant to three loan agreements dated November 1, 2008. The proceeds of the loans were used to current refund the Agency's outstanding 1997 Senior Lien Tax Allocation Bonds in the amount of \$9,825,000, to current refund the 1997 Subordinate Lien Tax Allocation Bonds in the amount of \$2,235,000, to finance additional projects benefiting the Agency's Project Area C including low and moderate income housing programs.

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

The Series A Serial Bonds totaling \$9,715,000 have principal repayments ranging from \$710,000 to \$1,070,000 with interest rates ranging from 4.25% to 6.5%. The Series A Term Bonds totaling \$4,710,000 due September 1, 2023, have sinking fund maturities ranging from \$1,060,000 to \$1,300,000 with interest at 7.0%. The Series A Term Bonds totaling \$4,475,000 due September 1, 2026, have sinking fund maturities ranging from \$1,390,000 to \$1,595,000 with interest at 7.125%. The outstanding balance at June 30, 2013, was \$15,790,000.

The Series B Term Bonds totaling \$330,000 due September 1, 2013, have sinking fund maturities ranging from \$55,000 to \$80,000 with interest at 7.25%; the Series B Term Bonds totaling \$445,000 due September 1, 2018, have sinking fund maturities ranging from \$75,000 to \$105,000 with interest at 8.375%; and the Series B Term Bonds totaling \$1,250,000 due September 1, 2026, have sinking fund maturities ranging from \$115,000 to \$205,000 with interest at 9.0%. The outstanding balance at June 30, 2013, was \$1,765,000.

The required reserve for the Series A and Series B bonds is \$1,834,494 and \$202,500, respectively. As of June 30, 2013, the reserve amount was \$1,927,261 and \$210,472, respectively.

2011 Tax Allocation Bonds, Series A

In June 2011, the former Brea Redevelopment Agency issued \$18,839,323 principal amount of Brea Redevelopment Agency 2011 Tax Allocation Bonds, Series A. The proceeds were used to: 1) refund all of the Agency's remaining outstanding 2001 Subordinate Tax Allocation Refunding Bonds, Series B, 2) finance projects benefiting the Agency's Redevelopment Project AB, 3) fund a reserve account, and 4) pay costs of issuance.

Bonds maturing in the years 2031 are current interest bonds payable August 1 in one installment of \$4,315,000, while bonds maturing in the years 2013 to 2036, are capital appreciation bonds payable August 1 in annual installments of \$28,489 to \$1,958,307. The Series A Capital Appreciation Bonds maturing on August 1, 2025 and August 1, 2034 are subject to special mandatory redemption in whole by the Agency on July 1, 2025 and May 15, 2034, respectively, at redemption price equal to 100 percent of the accreted value of the Series A Capital Appreciation Bonds to be redeemed, without premium.

The current interest bonds maturing on August 1, 2031, are subject to redemption in whole or in part at the option of the Agency from any available source of funds. The capital appreciation bonds maturing on or after August 1, 2022, are subject to redemption in whole or in part at the option of the Agency, from any available source of funds.

The current interest bonds bear interest at 5.00% due February 1 and August 1, of each year. The capital appreciation bonds have a face value of \$57,725,000. By their nature, there is no regular interest payments associated with capital appreciation bonds. The "interest" on the debt results from the difference between the amounts paid by the investors when the debt was issued and the significantly larger value at maturity. The \$57,725,000 of face value capital appreciation bonds were initially recorded at the amount of proceeds received, \$14,524,323. Each year, the outstanding balance is increased for the accretion of interest associated with the bonds.

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

Series A bonds are secured by a pledge of and lien on all the surplus tax revenues. The bonds are further secured by a required cash reserve of \$1,883,932 deposited with the trustee. As of June 30, 2013, the reserve was \$1,903,061.

The outstanding balance at June 30, 2013, was \$20,605,913.

2011 Taxable Tax Allocation Housing Bonds, Series B

In June 2011, the former Brea Redevelopment Agency issued \$10,295,000 principal amount of Brea Redevelopment Agency 2011 Taxable Tax Allocation Housing Bonds, Series B. The proceeds were used to: 1) finance projects in the Agency's low and moderating income housing program of benefit to the project area, 2) fund a reserve account, and 3) pay costs of issuance.

Series B bonds consist of \$5,045,000 serial bonds maturing in the years 2013 to 2025, payable August 1 in annual installments of \$85,000 to \$1,735,000. The bonds bear interest at 2.126% to 6.862%. Bonds maturing in the year 2026 to 2029, in the amount of \$5,250,000 are term bonds and bear interest at 7.392%. The Series B Bonds maturing on August 1, 2025 are subjected to special mandatory redemption in whole by the Agency on July 1, 2025, at redemption price equal to 100 percent of the principal amount, together with accrued interest, without premium.

Serial bonds maturing on or after August 1, 2022, are subject to redemption in whole or in part at the option of the Agency from any available source of funds. Term bonds are subject to mandatory redemption in part by lot on August 1, 2026, August 1, 2027, August 1, 2028 and August 1, 2029, in the amount of \$1,410,000, \$1,515,000 \$1,625,000, \$700,000, respectively, from sinking fund payments made by the Agency.

Series B bonds are secured by a pledge of and lien on housing tax revenues. The bonds are further secured by a required cash reserve of \$1,029,500 deposited with the trustee. As of June 30, 2013, the reserve was \$1,039,813.

The outstanding balance at June 30, 2013, was \$10,295,000.

Total Tax Allocation Bonds outstanding at June 30, 2013, was \$186,157,541. The debt service schedules of these Lease Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$ 7,869,637	\$ 7,639,066	\$ 15,508,703
2015	8,198,927	7,291,869	15,490,796
2016	8,557,957	6,923,415	15,481,372
2017	8,941,937	6,537,096	15,479,033
2018	9,323,584	6,141,180	15,464,764
2019-2023	52,335,057	24,212,991	76,548,048
2024-2028	56,954,718	17,594,105	74,548,823
2029-2033	28,733,825	26,914,890	55,648,715
2034-2038	5,241,899	22,098,102	27,340,001
Total	\$ 186,157,541	\$ 125,352,714	\$ 311,510,255

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

Pledged Revenues

The Successor Agency pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue (including Low and Moderate Income Housing set-aside and pass through allocations) that it receives. The bonds issued were to provide financing for various capital projects, accomplish Low and Moderate Income Housing projects and to defease previously issued bonds. Assembly Bill X1 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$311,510,255, with annual debt service requirements as indicated above. For the current year, the total property tax revenue recognized by the Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was \$19,031,214.

Refunding Lease Revenue Bonds

2004 Refunding Lease Revenue Bonds

The \$4,330,000 principal amount of the 2004 Refunding Lease Revenue Bonds was issued by the Brea Public Financing Authority in November 2004, to advance refund the Brea Public Financing Authority's 1995 Lease Revenue Bonds.

Bonds maturing in the years 2005 to 2021 are serial bonds payable in annual installments ranging from \$165,000 to \$345,000. The bonds bear interest at 3.000% to 4.500%. Bonds maturing on or after July 1, 2015, may be called before maturity and redeemed at the option of the Authority in whole or in part on any date after July 1, 2014, at a redemption price equal to 100% of the principal amount of the bonds redeemed.

Bonds are payable from the lease payments to be made by the City of Brea for the subleasing of certain real property pursuant to a lease agreement dated November 1, 2004. A financial guarantee insurance policy has been issued, and accordingly, no cash reserve balance is required to be established. Simultaneously, the City and the Agency entered into the Fourth Supplement to the Amended and Restated Reimbursement Agreement.

The outstanding balance at June 30, 2013, was \$2,670,000.

2010 Refunding Lease Revenue Bonds

The \$9,460,000 principal amount of the 2010 Refunding Lease Revenue Bonds was issued by the Brea Public Financing Authority in December 2010, to current refund the Brea Public Financing Authority's 1998 Lease Revenue Refunding Bonds.

Bonds maturing in the years 2011 to 2021 are serial bonds payable in annual installments ranging from \$865,000 to \$1,015,000. The bonds bear interest at 2 % to 4%, due semi-annually on January 1 and July 1. Bonds maturing on July 1, 2021, may be redeemed at the option of the Authority in whole or in part on any date after July 1, 2020, at a redemption price equal to 100% of the principal amount of the bonds redeemed.

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

Bonds are payable from the lease payments to be made by the City of Brea for the right to use and occupy certain property pursuant to a lease agreement dated December 1, 1998, and further amended by Amended and Restated Sublease Agreement dated December 1, 2010. Simultaneously, the City and the Agency entered into the Fourth Supplement to the Amended and Restated Reimbursement Agreement.

The outstanding balance at June 30, 2013, was \$7,870,000.

Total Refunding Lease Revenue Bonds outstanding at June 30, 2013, was \$10,540,000. The debt service schedules of these Lease Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$ 1,005,000	\$ 369,145	\$ 1,374,145
2015	1,035,000	327,270	1,362,270
2016	1,075,000	284,972	1,359,972
2017	1,120,000	240,669	1,360,669
2018	1,165,000	194,111	1,359,111
2019-2023	5,140,000	289,559	5,429,559
Total	<u>\$ 10,540,000</u>	<u>\$ 1,705,726</u>	<u>\$ 12,245,726</u>

Pledged Revenues

The Successor Agency pledged, as security for the lease revenue bonds issued, direct General Fund contribution and indirect tax increment revenue via a lease reimbursement agreement. The bonds issued were to defease previously issued bonds. Assembly Bill X1 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$12,245,726 with annual debt service requirements as indicated above. For the current year, the General Fund contribution was \$1,394,058 and total property tax revenue recognized by the Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was \$19,031,214. The debt service obligation on the lease revenue bonds for the current year was \$1,371,932.

d. Insurance

The Successor Agency of the former Redevelopment Agency is covered under the insurance policy of the City of Brea at June 30, 2013.

e. Construction and Other Significant Commitments

Owner Participation Agreements

In 1987, the Brea Redevelopment Agency entered into an owner participation agreement with the owners of the Brea Mall. This agreement obligates the Agency to pay the owners 80% of the tax increment revenues generated by the Brea Mall above the 1987-1988 base year tax increment, plus \$15,000. The agreement's term

CITY OF BREa

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Note 14: California Redevelopment Agency Dissolution (Continued)

is for 33 years beginning the year ended June 30, 1990. The tax increment revenue sharing payments are senior to bond payments.

The amount paid by the Agency as a result of this agreement for the fiscal year ended June 30, 2013, was \$1,107,287. Future minimum payments for the next 5 years and thereafter are estimated as follows:

2014	\$ 1,107,287
2015	1,107,287
2016	1,107,287
2017	1,107,287
2018	1,107,287
Amount due thereafter	5,536,435
Total	<u>\$ 11,072,870</u>

Note 15: Net Position Restatements

Beginning net position in the Water Utility Fund was restated by a total of \$196,781 to (1) correct the prepaid capital component fees incorrectly recorded as an expense in the prior fiscal year in the amount of \$354,165, (2) implement GASB statements No. 65 in the amount of \$(256,384), and (3) record investment of common stock in a water company in the amount of \$99,000.

Beginning net position in the Vehicle Maintenance Fund was restated by \$461,550 for capital outlay expenditure that should have been capitalized in the prior fiscal year, and therefore resulting also in a restatement of governmental activities beginning net position of \$461,550.

Beginning net position in the Private-Purpose Trust Fund was restated by \$(1,497,777) due to the implementation of GASB Statement No. 65, which removed the amortization of bond issuance cost.

Note 16: Subsequent Events

a. Purchase of Water Rights

On July 25, 2013, the City purchased 225 acre feet of water rights from Cal Domestic for \$3,487,500. Cal Domestic and the City verbally agree to apply the balance of the capital component fee payments at July 2013 (\$1,274,994) toward the purchase of these water rights resulting in an actual cash disbursement of \$2,212,506. Cal Domestic issues the City one share of Class A Preferred Stock for each acre foot of water rights purchased.

b. 2013 Tax Allocation Refunding Bonds

In December 2013, the Successor Agency to the Brea Redevelopment Agency issued \$96,620,000 Successor Agency to the Brea Redevelopment Agency 2013 Tax Allocation Refunding Bonds to current refund the balance of \$36,205,000 of the Brea Redevelopment Agency 2001 Tax Allocation Refunding Bonds, Series A and current refund a portion representing \$68,390,000 of the 2003 Tax Allocation Bonds.

NON-MAJOR GOVERNMENTAL FUNDS

Non-major Special Revenue Funds

The **Gas Tax Fund** is used to account for revenues received and expenditures made for street improvements and street maintenance. Financing is provided by the City's share of State gasoline taxes made pursuant to the California State Constitution and authorized by the State Legislature.

The **Narcotics Enforcement Asset Seizure Fund** is used to account for revenues seized by the Police Department during narcotic investigations.

The **Air Quality Improvement Fund** is used to account for revenues received from vehicle registration fees and restricted for improvement of air quality.

The **Park Development Fund** is used to account for revenues received and expenditures made for park development and improvement. The primary source of revenue is park development fees collected from developers under the State of California's Quimby Act.

The **Measure M Fund** is used to account for 1/2 ¢ sales tax restricted for expenditure for road maintenance and street expenditures.

The **Affordable Housing Trust Fund** is used to account for revenues received and expenditures made for the development of low to moderate income housing. The primary source of revenue is fees collected from developers.

The **Community Development Block Grant Fund** is used to account for the revenues received and expenditures made for the City's Community Development Block Grant Program. Financing is provided under an agreement with the County of Orange whereby the City is a secondary recipient of funds made available from the U.S. Department of Housing and Urban Development under the Housing and Community Development Act of 1974 and 1977.

The **HOME Program Fund** is used to account for the revenues received and expenditures made for housing rehabilitation. Financing is provided under an agreement with the County of Orange whereby the City is a secondary recipient of funds made available from the U.S. Department of Housing and Urban Development.

The **Blackstone Community Facilities District (CFD) Fund** is used to account for the collection of special taxes and expenditures for police, fire, maintenance and general city services including park maintenance and open space.

NON-MAJOR GOVERNMENTAL FUNDS

Non-major Capital Projects Funds

The **Capital and Mitigation Improvement Fund Capital Improvements** is used to account for the revenues received and expenditures made for the City Council-designated Capital Improvement projects, as well as the implementation of measures designed to mitigate impacts related to development, and the operation of government facilities, including, but not limited to: traffic, noise, aesthetics, and open space preservation. Financing is provided by the July 14, 2009 Agreement between the City and County of Orange regarding the extension of the Olinda Alpha Landfill.

The **Storm Drain Fund** is used to account for the financing and construction of storm drains throughout the City. Financing is provided by storm drain assessment fees.

The **Midbury Assessment Authority Fund** is an Agency Fund used to account for the collection and payment of neighborhood street improvements.

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CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue Funds			
	Narcotics			
	Gas Tax	Enforcement Asset Seizure	Air Quality Improvement	Park Development
Assets:				
Cash and investments	\$ 1,736,636	\$ 1,572,325	\$ 89,238	\$ 808,562
Receivables:				
Taxes	-	-	-	-
Notes and loans	-	-	-	-
Due from other governments	82,012	9,029	12,929	-
Total Assets	\$ 1,818,648	\$ 1,581,354	\$ 102,167	\$ 808,562
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 121,594	\$ -	\$ -
Accrued liabilities	-	3,305	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Total Liabilities	-	124,899	-	-
Deferred Inflows of Resources:				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances:				
Restricted for:				
Community development projects	-	-	-	808,562
Public safety	-	1,456,455	-	-
Public works	1,818,648	-	102,167	-
Capital projects	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	1,818,648	1,456,455	102,167	808,562
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,818,648	\$ 1,581,354	\$ 102,167	\$ 808,562

CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

(CONTINUED)

	Special Revenue Funds			
	Community			
	Measure M	Affordable Housing Fund	Development Block Grant	HOME Program
Assets:				
Cash and investments	\$ 645,796	\$ 2,048,030	\$ -	\$ -
Receivables:				
Taxes	-	-	-	-
Notes and loans	-	-	1,742,863	35,241
Due from other governments	143,173	-	97,197	-
Total Assets	\$ 788,969	\$ 2,048,030	\$ 1,840,060	\$ 35,241
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 33,458	\$ -
Accrued liabilities	194	-	-	-
Due to other governments	-	-	1,742,878	35,241
Due to other funds	-	-	69,934	-
Advances from other funds	-	-	-	-
Total Liabilities	194	-	1,846,270	35,241
Deferred Inflows of Resources:				
Unavailable revenues	-	-	97,197	-
Total Deferred Inflows of Resources	-	-	97,197	-
Fund Balances:				
Restricted for:				
Community development projects	-	2,048,030	-	-
Public safety	-	-	-	-
Public works	788,775	-	-	-
Capital projects	-	-	-	-
Unassigned	-	-	(103,407)	-
Total Fund Balances	788,775	2,048,030	(103,407)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 788,969	\$ 2,048,030	\$ 1,840,060	\$ 35,241

CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds			Total Nonmajor Governmental Funds
	Blackstone CFD	Capital and Mitigation Improvement	Storm Drain	Midbury	
Assets:					
Cash and investments	\$ 1,738,544	\$ 7,259,260	\$ 1,003,584	\$ 740	
Receivables:					
Taxes	3,983	-	-	184	
Notes and loans	-	-	-	-	
Due from other governments	-	-	-	-	
Total Assets	\$ 1,742,527	\$ 7,259,260	\$ 1,003,584	\$ 924	
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Accounts payable	\$ 9,198	\$ -	\$ -	\$ -	
Accrued liabilities	2,177	-	-	-	
Due to other governments	-	-	-	-	
Due to other funds	-	-	-	-	
Advances from other funds	-	-	-	42,169	
Total Liabilities	11,375	-	-	42,169	
Deferred Inflows of Resources:					
Unavailable revenues	-	-	-	-	
Total Deferred Inflows of Resources	-	-	-	-	
Fund Balances:					
Restricted for:					
Community development projects	-	-	-	-	
Public safety	-	-	-	-	
Public works	1,731,152	-	-	-	
Capital projects	-	7,259,260	1,003,584	-	
Unassigned	-	-	-	(41,245)	
Total Fund Balances	1,731,152	7,259,260	1,003,584	(41,245)	
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,742,527	\$ 7,259,260	\$ 1,003,584	\$ 924	

CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Total Nonmajor Governmental Funds
Assets:	
Cash and investments	\$ 16,902,715
Receivables:	
Taxes	4,167
Notes and loans	1,778,104
Due from other governments	344,340
Total Assets	\$ 19,029,326
Liabilities, Deferred Inflows of Resources, and Fund Balances:	
Liabilities:	
Accounts payable	\$ 164,250
Accrued liabilities	5,676
Due to other governments	1,778,119
Due to other funds	69,934
Advances from other funds	42,169
Total Liabilities	2,060,148
Deferred Inflows of Resources:	
Unavailable revenues	97,197
Total Deferred Inflows of Resources	97,197
Fund Balances:	
Restricted for:	
Community development projects	2,856,592
Public safety	1,456,455
Public works	4,440,742
Capital projects	8,262,844
Unassigned	(144,652)
Total Fund Balances	16,871,981
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 19,029,326

CITY OF BREA

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Special Revenue Funds			
	Gas Tax	Narcotics Enforcement Asset Seizure	Air Quality Improvement	Park Development
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	931,506	-	49,377	-
Charges for services	-	-	-	559,626
Investment income	(530)	8,322	(173)	(4,014)
Fines and forfeitures	-	471,628	-	-
Contributions	-	-	-	-
Miscellaneous	-	1,920	-	-
Total Revenues	930,976	481,870	49,204	555,612
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	871,575	-	-
Community development	-	-	-	-
Public works	-	-	-	-
Total Expenditures	-	871,575	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	930,976	(389,705)	49,204	555,612
Other Financing Sources (Uses):				
Transfers out	(428,856)	(8,000)	(43,100)	(95,672)
Proceeds from sale of capital asset	-	6,850	-	-
Total Other Financing Sources (Uses)	(428,856)	(1,150)	(43,100)	(95,672)
Net Change in Fund Balances	502,120	(390,855)	6,104	459,940
Fund Balances, Beginning of Year	1,316,528	1,847,310	96,063	348,622
Fund Balances, End of Year	\$ 1,818,648	\$ 1,456,455	\$ 102,167	\$ 808,562

CITY OF BREA

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

(CONTINUED)

	Special Revenue Funds			
	Measure M	Affordable Housing Fund	Community Development Block Grant	HOME Program
Revenues:				
Taxes	\$ 798,946	\$ -	\$ -	\$ -
Intergovernmental	-	-	150,544	-
Charges for services	-	-	-	-
Investment income	(525)	3,091	-	-
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	236,988	-	-
Total Revenues	798,421	240,079	150,544	-
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community development	-	-	170,161	-
Public works	11,058	-	-	-
Total Expenditures	11,058	-	170,161	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	787,363	240,079	(19,617)	-
Other Financing Sources (Uses):				
Transfers out	(707,150)	-	(77,581)	-
Proceeds from sale of capital asset	-	-	-	-
Total Other Financing Sources (Uses)	(707,150)	-	(77,581)	-
Net Change in Fund Balances	80,213	240,079	(97,198)	-
Fund Balances, Beginning of Year	708,562	1,807,951	(6,209)	-
Fund Balances, End of Year	\$ 788,775	\$ 2,048,030	\$ (103,407)	\$ -

CITY OF BREA

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds		
	Blackstone CFD	Capital and Mitigation Improvement	Storm Drain	Midbury
Revenues:				
Taxes	\$ 108,741	\$ -	\$ -	\$ 7,694
Intergovernmental	-	-	-	-
Charges for services	-	-	2,770	-
Investment income	(6,654)	-	3,474	34
Fines and forfeitures	-	-	-	-
Contributions	1,800,000	-	-	-
Miscellaneous	870	-	-	-
Total Revenues	1,902,957	-	6,244	7,728
Expenditures:				
Current:				
General government	-	-	-	1,041
Public safety	-	-	-	-
Community development	-	-	-	-
Public works	80,064	-	-	-
Total Expenditures	80,064	-	-	1,041
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,822,893	-	6,244	6,687
Other Financing Sources (Uses):				
Transfers out	(91,741)	(1,216,348)	(138,664)	-
Proceeds from sale of capital asset	-	-	-	-
Total Other Financing Sources (Uses)	(91,741)	(1,216,348)	(138,664)	-
Net Change in Fund Balances	1,731,152	(1,216,348)	(132,420)	6,687
Fund Balances, Beginning of Year	-	8,475,608	1,136,004	(47,932)
Fund Balances, End of Year	\$ 1,731,152	\$ 7,259,260	\$ 1,003,584	\$ (41,245)

CITY OF BREA

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Total Nonmajor Governmental Funds
Revenues:	
Taxes	\$ 915,381
Intergovernmental	1,131,427
Charges for services	562,396
Investment income	3,025
Fines and forfeitures	471,628
Contributions	1,800,000
Miscellaneous	239,778
Total Revenues	5,123,635
Expenditures:	
Current:	
General government	1,041
Public safety	871,575
Community development	170,161
Public works	91,122
Total Expenditures	1,133,899
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,989,736
Other Financing Sources (Uses):	
Transfers out	(2,807,112)
Proceeds from sale of capital asset	6,850
Total Other Financing Sources (Uses)	(2,800,262)
Net Change in Fund Balances	1,189,474
Fund Balances, Beginning of Year	15,682,507
Fund Balances, End of Year	\$ 16,871,981

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
GAS TAX
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,316,528	\$ 1,316,528	\$ 1,316,528	\$ -
Resources (Inflows):				
Intergovernmental	1,110,000	1,110,000	931,506	(178,494)
Investment income	10,000	10,000	(530)	(10,530)
Amounts Available for Appropriations	2,436,528	2,436,528	2,247,504	(189,024)
Charges to Appropriations (Outflow):				
Transfers out	2,145,977	2,145,977	428,856	1,717,121
Total Charges to Appropriations	2,145,977	2,145,977	428,856	1,717,121
Budgetary Fund Balance, June 30	\$ 290,551	\$ 290,551	\$ 1,818,648	\$ 1,528,097

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
NARCOTICS ENFORCEMENT ASSET SEIZURE
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,847,310	\$ 1,847,310	\$ 1,847,310	\$ -
Resources (Inflows):				
Investment income	15,000	15,000	8,322	(6,678)
Fines and forfeitures	175,000	175,000	471,628	296,628
Miscellaneous	-	-	1,920	1,920
Proceeds from sale of capital asset	-	-	6,850	6,850
Amounts Available for Appropriations	2,037,310	2,037,310	2,336,030	298,720
Charges to Appropriations (Outflow):				
Public safety	974,835	1,071,935	871,575	200,360
Transfers out	-	8,000	8,000	-
Total Charges to Appropriations	974,835	1,079,935	879,575	200,360
Budgetary Fund Balance, June 30	\$ 1,062,475	\$ 957,375	\$ 1,456,455	\$ 499,080

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
AIR QUALITY IMPROVEMENT
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 96,063	\$ 96,063	\$ 96,063	\$ -
Resources (Inflows):				
Intergovernmental	44,000	44,000	49,377	5,377
Investment income	1,200	1,200	(173)	(1,373)
Amounts Available for Appropriations	141,263	141,263	145,267	4,004
Charges to Appropriations (Outflow):				
Transfers out	43,100	43,100	43,100	-
Total Charges to Appropriations	43,100	43,100	43,100	-
Budgetary Fund Balance, June 30	\$ 98,163	\$ 98,163	\$ 102,167	\$ 4,004

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
PARK DEVELOPMENT
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 348,622	\$ 348,622	\$ 348,622	\$ -
Resources (Inflows):				
Charges for services	720,000	720,000	559,626	(160,374)
Investment income	14,000	14,000	(4,014)	(18,014)
Amounts Available for Appropriations	1,082,622	1,082,622	904,234	(178,388)
Charges to Appropriations (Outflow):				
Transfers out	150,000	150,000	95,672	54,328
Total Charges to Appropriations	150,000	150,000	95,672	54,328
Budgetary Fund Balance, June 30	\$ 932,622	\$ 932,622	\$ 808,562	\$ (124,060)

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
MEASURE M
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 708,562	\$ 708,562	\$ 708,562	\$ -
Resources (Inflows):				
Taxes	665,000	665,000	798,946	133,946
Investment income	5,000	5,000	(525)	(5,525)
Amounts Available for Appropriations	1,378,562	1,378,562	1,506,983	128,421
Charges to Appropriations (Outflow):				
Public works	30,620	30,620	11,058	19,562
Transfers out	1,519,267	1,519,267	707,150	812,117
Total Charges to Appropriations	1,549,887	1,549,887	718,208	831,679
Budgetary Fund Balance, June 30	\$ (171,325)	\$ (171,325)	\$ 788,775	\$ 960,100

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
AFFORDABLE HOUSING FUND
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,807,951	\$ 1,807,951	\$ 1,807,951	\$ -
Resources (Inflows):				
Investment income	35,000	35,000	3,091	(31,909)
Miscellaneous	100,000	100,000	236,988	136,988
Amounts Available for Appropriations	1,942,951	1,942,951	2,048,030	105,079
Budgetary Fund Balance, June 30	\$ 1,942,951	\$ 1,942,951	\$ 2,048,030	\$ 105,079

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
 COMMUNITY DEVELOPMENT BLOCK GRANT
 YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (6,209)	\$ (6,209)	\$ (6,209)	\$ -
Resources (Inflows):				
Intergovernmental	265,320	265,320	150,544	(114,776)
Amounts Available for Appropriations	259,111	259,111	144,335	(114,776)
Charges to Appropriations (Outflow):				
Community development	180,000	180,000	170,161	9,839
Transfers out	85,320	85,320	77,581	7,739
Total Charges to Appropriations	265,320	265,320	247,742	17,578
Budgetary Fund Balance, June 30	\$ (6,209)	\$ (6,209)	\$ (103,407)	\$ (97,198)

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
 BLACKSTONE CFD
 YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):				
Taxes	141,276	141,276	108,741	(32,535)
Investment income	1,400	1,400	(6,654)	(8,054)
Contributions	-	1,800,000	1,800,000	-
Miscellaneous	-	-	870	870
Amounts Available for Appropriations	142,676	1,942,676	1,902,957	(39,719)
Charges to Appropriations (Outflow):				
Public works	64,146	89,046	80,064	8,982
Transfers out	-	91,800	91,741	59
Total Charges to Appropriations	64,146	180,846	171,805	9,041
Budgetary Fund Balance, June 30	\$ 78,530	\$ 1,761,830	\$ 1,731,152	\$ (30,678)

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENTS
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 11,639,078	\$ 11,639,078	\$ 11,639,078	\$ -
Resources (Inflows):				
Intergovernmental	20,239,822	20,239,822	2,683,219	(17,556,603)
Charges for services	387,000	387,000	1,614,079	1,227,079
Investment income	200,000	200,000	15,662	(184,338)
Contributions	469,414	469,414	499,568	30,154
Miscellaneous	-	-	15,680	15,680
Transfers in	20,318,427	20,630,427	4,080,746	(16,549,681)
Amounts Available for Appropriations	53,253,741	53,565,741	20,548,032	(33,017,709)
Charges to Appropriations (Outflow):				
General government	93,526	96,526	93,113	3,413
Community development	872	872	473	399
Public works	257,607	257,607	3,190	254,417
Capital outlay	40,797,863	41,109,863	6,896,432	34,213,431
Total Charges to Appropriations	41,149,868	41,464,868	6,993,208	34,471,660
Budgetary Fund Balance, June 30	\$ 12,103,873	\$ 12,100,873	\$ 13,554,824	\$ 1,453,951

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
CAPITAL AND MITIGATION IMPROVEMENT
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 8,475,608	\$ 8,475,608	\$ 8,475,608	\$ -
Amounts Available for Appropriations	8,475,608	8,475,608	8,475,608	-
Charges to Appropriations (Outflow):				
Transfers out	4,406,391	4,431,391	1,216,348	3,215,043
Total Charges to Appropriations	4,406,391	4,431,391	1,216,348	3,215,043
Budgetary Fund Balance, June 30	\$ 4,069,217	\$ 4,044,217	\$ 7,259,260	\$ 3,215,043

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
STORM DRAIN
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,136,004	\$ 1,136,004	\$ 1,136,004	\$ -
Resources (Inflows):				
Charges for services	-	-	2,770	2,770
Investment income	16,000	16,000	3,474	(12,526)
Amounts Available for Appropriations	1,152,004	1,152,004	1,142,248	(9,756)
Charges to Appropriations (Outflow):				
Public works	10,000	10,000	-	10,000
Transfers out	344,944	344,944	138,664	206,280
Total Charges to Appropriations	354,944	354,944	138,664	216,280
Budgetary Fund Balance, June 30	\$ 797,060	\$ 797,060	\$ 1,003,584	\$ 206,524

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
MIDBURY
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (47,932)	\$ (47,932)	\$ (47,932)	\$ -
Resources (Inflows):				
Taxes	-	-	7,694	7,694
Investment income	7,428	7,428	34	(7,394)
Amounts Available for Appropriations	(40,504)	(40,504)	(40,204)	300
Charges to Appropriations (Outflow):				
General government	538	868	1,041	(173)
Total Charges to Appropriations	538	868	1,041	(173)
Budgetary Fund Balance, June 30	\$ (41,042)	\$ (41,372)	\$ (41,245)	\$ 127

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NON-MAJOR PROPRIETARY FUNDS

The *Urban Runoff Fund* is used to account for the City's urban runoff operations, which are financed and operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

The *Sanitation Fund* is used to account for the City's refuse collection and street sweeping operations, which are operated in a manner similar to a private enterprise. User charges finance the operations of this fund.

The *Information Technology External Support Fund* is used to account for the operations of the Information Technology Division's contractual information technology services to other agencies. The costs (expenses including depreciation) of providing these services to member cities on a continuing basis are financed or recovered primarily through user charges.

CITY OF BREA

COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2013

	Urban Runoff	Sanitation	Information Technology External Support	Total
Assets:				
Current:				
Cash and investments	\$ 445,105	\$ 129	\$ 245,827	\$ 691,061
Accounts receivable	53,394	574,685	9,922	638,001
Due from other governments	-	-	206,971	206,971
Total Current Assets	498,499	574,814	462,720	1,536,033
Noncurrent:				
Capital assets - net of accumulated depreciation	6,016	-	5,525	11,541
Total Noncurrent Assets	6,016	-	5,525	11,541
Total Assets	\$ 504,515	\$ 574,814	\$ 468,245	\$ 1,547,574
Liabilities and Net Position:				
Liabilities:				
Current:				
Accounts payable	\$ 1,029	\$ 186,617	\$ 3,238	\$ 190,884
Accrued liabilities	3,244	7,704	21,758	32,706
Due to other funds	-	571,600	-	571,600
Accrued compensated absences, due within one year	1,856	9,680	68,214	79,750
Total Current Liabilities	6,129	775,601	93,210	874,940
Noncurrent:				
Accrued compensated absences, due in more than one year	619	3,227	22,738	26,584
Total Noncurrent Liabilities	619	3,227	22,738	26,584
Total Liabilities	6,748	778,828	115,948	901,524
Net Position:				
Investment in capital assets	6,016	-	5,525	11,541
Unrestricted	491,751	(204,014)	346,772	634,509
Total Net Position	497,767	(204,014)	352,297	646,050
Total Liabilities and Net Position	\$ 504,515	\$ 574,814	\$ 468,245	\$ 1,547,574

CITY OF BREA

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Urban Runoff	Sanitation	Information Technology External Support	Total
Operating Revenues:				
Charges for services	\$ 354,447	\$ 3,101,471	\$ 1,497,631	\$ 4,953,549
Miscellaneous	6,874	97,664	1,388	105,926
Total Operating Revenues	361,321	3,199,135	1,499,019	5,059,475
Operating Expenses:				
Personnel services	153,331	422,232	1,178,173	1,753,736
Maintenance and operation	134,029	2,369,210	87,556	2,590,795
Depreciation expense	937	-	1,172	2,109
Total Operating Expenses	288,297	2,791,442	1,266,901	4,346,640
Operating Income (Loss)	73,024	407,693	232,118	712,835
Nonoperating Revenues (Expenses):				
Intergovernmental	-	11,323	-	11,323
Interest revenue	837	2,230	822	3,889
Total Nonoperating Revenues (Expenses)	837	13,553	822	15,212
Income (Loss) Before Transfers	73,861	421,246	232,940	728,047
Transfers out	(25,178)	(869,143)	(360,000)	(1,254,321)
Changes in Net Position	48,683	(447,897)	(127,060)	(526,274)
Net Position:				
Beginning of Year	449,084	243,883	479,357	1,172,324
End of Fiscal Year	\$ 497,767	\$ (204,014)	\$ 352,297	\$ 646,050

CITY OF BREA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Urban Runoff	Sanitation	Information Technology External Support	Total
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 358,847	\$ 3,189,407	\$ 1,545,277	\$ 5,093,531
Cash paid to suppliers for goods and services	(136,527)	(2,362,090)	(86,976)	(2,585,593)
Cash paid to employees for services	(152,882)	(425,423)	(1,171,570)	(1,749,875)
Net Cash Provided (Used) by Operating Activities	69,438	401,894	286,731	758,063
Cash Flows from Non-Capital Financing Activities:				
Cash transfers out for noncapital financing activities	(25,178)	(869,143)	(360,000)	(1,254,321)
Repayment received from other funds	-	453,825	-	453,825
Grant subsidy	-	11,323	-	11,323
Net Cash Provided (Used) by Non-Capital Financing Activities	(25,178)	(403,995)	(360,000)	(789,173)
Cash Flows from Investing Activities:				
Interest received	837	2,230	822	3,889
Net Cash Provided (Used) by Investing Activities	837	2,230	822	3,889
Net Increase (Decrease) in Cash and Cash Equivalents	45,097	129	(72,447)	(27,221)
Cash and Cash Equivalents at Beginning of Year	400,008	-	318,274	718,282
Cash and Cash Equivalents at End of Year	\$ 445,105	\$ 129	\$ 245,827	\$ 691,061
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 73,024	\$ 407,693	\$ 232,118	\$ 712,835
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:				
Depreciation	937	-	1,172	2,109
(Increase) decrease in accounts receivable	(2,474)	(21,051)	(9,922)	(33,447)
(Increase) decrease in due from other governments	-	11,323	56,180	67,503
Increase (decrease) in accounts payable	(2,498)	7,120	580	5,202
Increase (decrease) in accrued liabilities	1,181	198	280	1,659
Increase (decrease) in compensated absences	(732)	(3,389)	6,323	2,202
Total Adjustments	(3,586)	(5,799)	54,613	45,228
Net Cash Provided (Used) by Operating Activities	\$ 69,438	\$ 401,894	\$ 286,731	\$ 758,063

Non-Cash Investing, Capital, and Financing Activities:

There was no non-cash investing, capital or financing activities during fiscal year 2012-2013.

INTERNAL SERVICE FUNDS

The **Risk Management Fund** is used to account for costs of operating a self-insurance program for general liability, workers' compensation, long-term disability and unemployment compensation. Such costs to other departments are billed at a predetermined rate set annually during the budget process.

The **Vehicle Maintenance Fund** is used to account for the costs of operating a maintenance facility for automotive equipment used by other City departments. Such costs to other departments are billed at a predetermined cost per mile charge that includes depreciation. This charge is set annually during the budget process. The Vehicle Maintenance Fund is responsible for financing replacement vehicles, as necessary.

The **Building Occupancy Fund** is used to account for costs of operating a building maintenance program for City facilities. Such costs to other departments are billed at a predetermined rate set annually during the budget process.

CITY OF BREA

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2013

	Risk Management	Vehicle Maintenance	Building Occupancy	Total
Assets:				
Current:				
Cash and investments	\$ 2,008,711	\$ 1,264,412	\$ 536,923	\$ 3,810,046
Accounts receivable	50,089	-	-	50,089
Due from other governments	117,112	4,959	6,044	128,115
Total Current Assets	2,175,912	1,269,371	542,967	3,988,250
Noncurrent:				
Advances to other funds	3,151,787	-	-	3,151,787
Capital assets - net of accumulated depreciation	-	4,082,213	1,216,062	5,298,275
Total Noncurrent Assets	3,151,787	4,082,213	1,216,062	8,450,062
Total Assets	\$ 5,327,699	\$ 5,351,584	\$ 1,759,029	\$ 12,438,312
Liabilities and Net Position:				
Liabilities:				
Current:				
Accounts payable	\$ 48,493	\$ 411,173	\$ 46,573	\$ 506,239
Accrued liabilities	3,546	10,979	11,564	26,089
Accrued interest	-	-	12,174	12,174
Accrued compensated absences, due within one year	-	20,191	28,754	48,945
Accrued claims and judgments, due within one year	2,448,911	-	-	2,448,911
Bonds, notes, and capital leases, due within one year	-	-	140,155	140,155
Total Current Liabilities	2,500,950	442,343	239,220	3,182,513
Noncurrent:				
Accrued compensated absences, due in more than one year	-	6,730	9,585	16,315
Accrued claims and judgments, due in more than one year	2,622,587	-	-	2,622,587
Bonds, notes, and capital leases, due in more than one year	-	-	629,409	629,409
Total Noncurrent Liabilities	2,622,587	6,730	638,994	3,268,311
Total Liabilities	5,123,537	449,073	878,214	6,450,824
Net Position:				
Net investment in capital assets	-	4,082,213	446,498	4,528,711
Unrestricted	204,162	820,298	434,317	1,458,777
Total Net Position	204,162	4,902,511	880,815	5,987,488
Total Liabilities and Net Position	\$ 5,327,699	\$ 5,351,584	\$ 1,759,029	\$ 12,438,312

CITY OF BREA

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2013

	Risk Management	Vehicle Maintenance	Building Occupancy	Total
Operating Revenues:				
Charge for services	\$ 2,928,636	\$ 2,231,616	\$ 2,180,100	\$ 7,340,352
Miscellaneous	410,947	20,294	889	432,130
Total Operating Revenues	3,339,583	2,251,910	2,180,989	7,772,482
Operating Expenses:				
Personnel services	176,240	504,707	615,482	1,296,429
Maintenance and operation	1,147,433	953,829	1,448,151	3,549,413
Claims and judgments	2,272,808	-	-	2,272,808
Depreciation expense	-	740,084	91,389	831,473
Total Operating Expenses	3,596,481	2,198,620	2,155,022	7,950,123
Operating Income (Loss)	(256,898)	53,290	25,967	(177,641)
Nonoperating Revenues (Expenses):				
Intergovernmental	-	-	25,215	25,215
Interest revenue	6,727	(5,118)	4,339	5,948
Interest expense	-	-	(38,180)	(38,180)
Contributions	-	200,000	-	200,000
Gain (loss) on disposal of capital assets	-	(6,369)	-	(6,369)
Total Nonoperating Revenues (Expenses)	6,727	188,513	(8,626)	186,614
Income (Loss) Before Transfers	(250,171)	241,803	17,341	8,973
Transfers in	1,574,000	491,951	-	2,065,951
Transfers out	(650,000)	-	(330,000)	(980,000)
Changes in Net Position	\$ 673,829	\$ 733,754	\$ (312,659)	\$ 1,094,924
Net Position:				
Beginning of Year, as originally reported	\$ (469,667)	\$ 3,707,207	\$ 1,193,474	\$ 4,431,014
Restatements	-	461,550	-	461,550
Beginning of Fiscal Year, as restated	(469,667)	4,168,757	1,193,474	4,892,564
Changes in Net Position	673,829	733,754	(312,659)	1,094,924
End of Fiscal Year	\$ 204,162	\$ 4,902,511	\$ 880,815	\$ 5,987,488

CITY OF BREA

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2013

	Risk Management	Vehicle Maintenance	Building Occupancy	Total
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 3,243,527	\$ 2,268,279	\$ 2,266,263	\$ 7,778,069
Cash paid to suppliers for goods and services	(1,066,309)	(626,957)	(1,476,261)	(3,169,527)
Cash paid to employees for services	(2,449,048)	(509,504)	(613,129)	(3,571,681)
Net Cash Provided (Used) by Operating Activities	(271,830)	1,131,818	176,873	1,036,861
Cash Flows from Non-Capital Financing Activities:				
Cash transfers out for noncapital financing activities	(650,000)	-	(330,000)	(980,000)
Cash transfers in for noncapital financing activities	1,574,000	491,951	-	2,065,951
Advance from other funds	566,012	-	-	566,012
Contributions	-	200,000	-	200,000
Grant subsidy	-	-	25,215	25,215
Net Cash Provided (Used) by Non-Capital Financing Activities	1,490,012	691,951	(304,785)	1,877,178
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	-	(949,694)	-	(949,694)
Proceeds from sales of capital assets	-	80,532	-	80,532
Principal paid on capital debt	-	-	(133,884)	(133,884)
Interest paid on capital debt	-	-	(40,298)	(40,298)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(869,162)	(174,182)	(1,043,344)
Cash Flows from Investing Activities:				
Interest received	6,727	(5,118)	4,339	5,948
Net Cash Provided (Used) by Investing Activities	6,727	(5,118)	4,339	5,948
Net Increase (Decrease) in Cash and Cash Equivalents	1,224,909	949,489	(297,755)	1,876,643
Cash and Cash Equivalents at Beginning of Year	783,802	314,923	834,678	1,933,403
Cash and Cash Equivalents at End of Year	\$ 2,008,711	\$ 1,264,412	\$ 536,923	\$ 3,810,046
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (256,898)	\$ 53,290	\$ 25,967	\$ (177,641)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:				
Depreciation	-	740,084	91,389	831,473
(Increase) decrease in accounts receivable	21,056	16,365	-	37,421
(Increase) decrease in due from other governments	(117,112)	4	85,274	(31,834)
(Increase) decrease in prepaid expense	416,920	-	-	416,920
Increase (decrease) in accounts payable	33,952	328,758	(29,253)	333,457
Increase (decrease) in accrued liabilities	166	(1,886)	1,143	(577)
Increase (decrease) in claims and judgments	(369,914)	-	-	(369,914)
Increase (decrease) in compensated absences	-	(4,797)	2,353	(2,444)
Total Adjustments	(14,932)	1,078,528	150,906	1,214,502
Net Cash Provided (Used) by Operating Activities	\$ (271,830)	\$ 1,131,818	\$ 176,873	\$ 1,036,861

Non-Cash Investing, Capital, and Financing Activities:

There was no non-cash investing, capital or financing activities during fiscal year 2012-2013.

FIDUCIARY FUNDS

The *Fairway Center Community Facilities District 1988-1 Fund* is an Agency Fund used to account for the collection and payment to the holders of the 1997 Special Tax Refunding Bonds.

The *Bexley Assessment District 2001-1 Fund* is an Agency Fund used to account for the collection and payment of neighborhood sewer improvements.

The *Hillside Open Space Education Coalition* is an Agency Fund used to account for the funds received to educate the public as to the importance of hillside preservation.

The *Imperial Center East Community Facilities District 1990-1 Fund* is an Agency Fund used to account for the collection and payment to the holders of the 1999 Special Tax Note.

The *Downtown Community Facilities District 1996-1 Fund* is an Agency Fund used to account for the collection and payment to the holders of the 1997 Special Tax Bonds.

The *Olinda Heights Community Facilities District 1997-1 Fund* is an Agency Fund used to account for the collection and payment to the holders of the 2005 Special Tax Bonds.

The *Brea Plaza Community Facilities District 2008-02 Fund* is an Agency Fund used to account for the collection and payment to the holders of the 2009 Special Tax Bonds.

The *Integrated Law and Justice Agency of Orange County (ILJAO) Fund* is an Agency Fund used to account for the collection and payment related to a joint venture agreement with several other public agencies of Orange County. The City acts as a treasurer for the ILJAO.

CITY OF BREA

COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2013

	Fairway Center	Bexley	Hillside Open Space Education Coalition	Imperial Center East
Assets:				
Cash and investments	\$ 137,361	\$ -	\$ 513,885	\$ 274,158
Receivables:				
Accounts	-	39,317	-	-
Taxes	-	1,254	-	-
Restricted assets:				
Cash and investments with fiscal agents	206,535	-	-	-
Total Assets	\$ 343,896	\$ 40,571	\$ 513,885	\$ 274,158
Liabilities:				
Accounts payable	\$ 19	\$ -	\$ -	\$ -
Accrued liabilities	261	-	513,885	274,158
Due to City of Brea	-	40,153	-	-
Due to external parties/other agencies	343,616	418	-	-
Total Liabilities	\$ 343,896	\$ 40,571	\$ 513,885	\$ 274,158

CITY OF BREA

COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2013

	Downtown Community Facilities District	Olinda Heights	Brea Plaza	ILJAOC	Total
Assets:					
Cash and investments	\$ 219,038	\$ 278,689	\$ 359,507	\$ 2,245,467	\$ 4,028,105
Receivables:					
Accounts	-	-	-	26,660	65,977
Taxes	-	13,845	-	-	15,099
Restricted assets:					
Cash and investments with fiscal agents	260,954	452,995	819,834	-	1,740,318
Total Assets	\$ 479,992	\$ 745,529	\$ 1,179,341	\$ 2,272,127	\$ 5,849,499
Liabilities:					
Accounts payable	\$ 243	\$ 41	\$ 75	\$ 96,179	\$ 96,557
Accrued liabilities	493	493	261	-	789,551
Due to City of Brea	-	-	-	-	40,153
Due to external parties/other agencies	479,256	744,995	1,179,005	2,175,948	4,923,238
Total Liabilities	\$ 479,992	\$ 745,529	\$ 1,179,341	\$ 2,272,127	\$ 5,849,499

CITY OF BREA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2013

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
Fairway Center				
Assets:				
Cash and investments	\$ 151,207	\$ 207,510	\$ 221,356	\$ 137,361
Restricted assets:				
Cash and investments with fiscal agents	207,809	203,502	204,776	206,535
Total Assets	\$ 359,016	\$ 411,012	\$ 426,132	\$ 343,896
Liabilities:				
Accounts payable	\$ 19	\$ 4,687	\$ 4,687	\$ 19
Accrued liabilities	211	261	211	261
Due to external parties/other agencies	358,786	211,422	226,592	343,616
Total Liabilities	\$ 359,016	\$ 216,370	\$ 231,490	\$ 343,896
Bexley				
Assets:				
Cash and investments	\$ -	\$ 10,751	\$ 10,751	\$ -
Receivables:				
Accounts	46,495	6,356	13,534	39,317
Taxes	-	1,254	-	1,254
Total Assets	\$ 46,495	\$ 18,361	\$ 24,285	\$ 40,571
Liabilities:				
Due to City of Brea	\$ 46,495	\$ 3,756	\$ 10,098	\$ 40,153
Due to external parties/other agencies	-	418	-	418
Total Liabilities	\$ 46,495	\$ 4,174	\$ 10,098	\$ 40,571
Hillside Open Space Education Coalition				
Assets:				
Cash and investments	\$ 512,982	\$ 7,949	\$ 7,046	\$ 513,885
Total Assets	\$ 512,982	\$ 7,949	\$ 7,046	\$ 513,885
Liabilities:				
Accrued liabilities	\$ 512,982	\$ 7,949	\$ 7,046	\$ 513,885
Total Liabilities	\$ 512,982	\$ 7,949	\$ 7,046	\$ 513,885
Imperial Center East				
Assets:				
Cash and investments	\$ 281,757	\$ 140,345	\$ 147,944	\$ 274,158
Total Assets	\$ 281,757	\$ 140,345	\$ 147,944	\$ 274,158
Liabilities:				
Accrued liabilities	\$ 281,757	\$ 140,345	\$ 147,944	\$ 274,158
Total Liabilities	\$ 281,757	\$ 140,345	\$ 147,944	\$ 274,158

CITY OF BREA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2013

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
Downtown Community Facilities District				
Assets:				
Cash and investments	\$ 319,641	\$ 197,743	\$ 298,346	\$ 219,038
Restricted assets:				
Cash and investments with fiscal agents	269,663	252,424	261,133	260,954
Total Assets	\$ 589,304	\$ 450,167	\$ 559,479	\$ 479,992
Liabilities:				
Accounts payable	\$ 65	\$ 21,193	\$ 21,015	\$ 243
Accrued liabilities	450	493	450	493
Due to external parties/other agencies	588,789	205,108	314,641	479,256
Total Liabilities	\$ 589,304	\$ 226,794	\$ 336,106	\$ 479,992
Olinda Heights				
Assets:				
Cash and investments	\$ 302,519	\$ 437,610	\$ 461,440	\$ 278,689
Receivables:				
Taxes	13,426	13,845	13,426	13,845
Restricted assets:				
Cash and investments with fiscal agents	468,023	442,227	457,255	452,995
Total Assets	\$ 783,968	\$ 893,682	\$ 932,121	\$ 745,529
Liabilities:				
Accounts payable	\$ 2,454	\$ 5,033	\$ 7,446	\$ 41
Accrued liabilities	439	493	439	493
Due to external parties/other agencies	781,075	459,710	495,790	744,995
Total Liabilities	\$ 783,968	\$ 465,236	\$ 503,675	\$ 745,529
Brea Plaza				
Assets:				
Cash and investments	\$ 370,425	\$ 608,631	\$ 619,549	\$ 359,507
Restricted assets:				
Cash and investments with fiscal agents	845,425	620,125	645,716	819,834
Total Assets	\$ 1,215,850	\$ 1,228,756	\$ 1,265,265	\$ 1,179,341
Liabilities:				
Accounts payable	\$ 77	\$ 2,826	\$ 2,828	\$ 75
Accrued liabilities	211	261	211	261
Due to external parties/other agencies	1,215,562	631,248	667,805	1,179,005
Total Liabilities	\$ 1,215,850	\$ 634,335	\$ 670,844	\$ 1,179,341

CITY OF BREA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2013

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
ILJAOC				
Assets:				
Cash and investments	\$ 1,780,106	\$ 1,902,429	\$ 1,437,068	\$ 2,245,467
Receivables:				
Accounts	-	26,660	-	26,660
Prepaid items	950	-	950	-
Due from other governments	990,900	-	990,900	-
Total Assets	\$ 2,771,956	\$ 1,929,089	\$ 2,428,918	\$ 2,272,127
Liabilities:				
Accounts payable	\$ 691,497	\$ 431,205	\$ 1,026,523	\$ 96,179
Due to external parties/other agencies	2,080,459	1,211,276	1,115,787	2,175,948
Total Liabilities	\$ 2,771,956	\$ 1,642,481	\$ 2,142,310	\$ 2,272,127
Totals - All Agency Funds				
Assets:				
Cash and investments	\$ 3,718,637	\$ 3,512,968	\$ 3,203,500	\$ 4,028,105
Receivables:				
Accounts	46,495	33,016	13,534	65,977
Taxes	13,426	15,099	13,426	15,099
Prepaid items	950	-	950	-
Due from other governments	990,900	-	990,900	-
Restricted assets:				
Cash and investments with fiscal agents	1,790,920	1,518,278	1,568,880	1,740,318
Total Assets	\$ 6,561,328	\$ 5,079,361	\$ 5,791,190	\$ 5,849,499
Liabilities:				
Accounts payable	\$ 694,112	\$ 464,944	\$ 1,062,499	\$ 96,557
Accrued liabilities	796,050	149,802	156,301	789,551
Due to City of Brea	46,495	3,756	10,098	40,153
Due to external parties/other agencies	5,024,671	2,719,182	2,820,615	4,923,238
Total Liabilities	\$ 6,561,328	\$ 3,337,684	\$ 4,049,513	\$ 5,849,499

STATISTICAL SECTION

This part of the City of Brea's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Page
Financial Trends	123
<i>These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.</i>	
Revenue Capacity	128
<i>These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.</i>	
Debt Capacity	132
<i>These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	137
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.</i>	
Operating Information	139
<i>These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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CITY OF BREA

NET POSITION BY COMPONENT
LAST EIGHT FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Governmental Activities								
Net investment in capital assets	\$ 39,535,624	\$ 43,121,285	\$ 44,751,794	\$ 43,350,936	\$ 49,313,284	\$ 40,774,347	\$ 36,846,317	\$ 165,031,654
Restricted	38,280,689	39,185,059	43,477,959	46,271,092	62,325,348	73,800,755	26,596,796	53,379,627
Unrestricted	(45,118,159)	(35,249,892)	(25,459,519)	(21,203,642)	(34,372,602)	(33,277,968)	157,129,179	29,028,179
Total governmental activities net position	\$ 32,698,154	\$ 47,056,452	\$ 62,770,234	\$ 68,418,386	\$ 77,266,030	\$ 81,297,134	\$ 220,572,292	\$ 247,439,460
Business-type Activities								
Net investment of capital assets	\$ 36,503,262	\$ 39,952,397	\$ 42,960,060	\$ 44,774,355	45,690,842	27,869,296	36,107,809	36,804,832
Restricted	2,597,925	2,613,592	2,623,071	1,885,573	-	7,028,848	5,217,299	7,411,252
Unrestricted	9,251,051	7,457,416	6,930,527	6,368,112	7,101,987	13,592,110	7,695,077	6,023,885
Total business-type activities net position	\$ 48,352,238	\$ 50,023,405	\$ 52,513,658	\$ 53,028,040	\$ 52,792,829	\$ 48,490,254	\$ 49,020,185	\$ 50,239,969
Primary Government								
Net investment of capital assets	\$ 76,038,886	\$ 83,073,682	\$ 87,711,854	\$ 88,125,291	\$ 95,004,126	\$ 68,643,643	\$ 72,954,126	\$ 201,836,486
Restricted	40,878,614	41,798,651	46,101,030	48,156,665	62,325,348	80,829,603	31,814,095	60,790,879
Unrestricted	(35,867,108)	(27,792,476)	(18,528,992)	(14,835,530)	(27,270,615)	(19,685,858)	164,824,256	35,052,064
Total primary government net position	\$ 81,050,392	\$ 97,079,857	\$ 115,283,892	\$ 121,446,426	\$ 130,058,859	\$ 129,787,388	\$ 269,592,477	\$ 297,679,429

As provided in GASB Statement 44, the City of Brea has elected to report fiscal years beginning 2005-06 and forward.

CITY OF BREA

CHANGES IN NET POSITION
LAST EIGHT FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Expenses:								
Governmental activities:								
General government	\$ 15,921,216	\$ 12,437,009	\$ 10,179,967	\$ 11,501,616	\$ 8,516,391	\$ 7,530,948	\$ 9,747,589	\$ 7,495,185
Public safety	29,615,376	30,785,379	34,611,575	36,993,799	35,756,811	36,221,221	39,166,833	35,849,288
Community Development	11,235,023	10,488,918	7,623,158	9,214,020	17,213,948	11,056,047	2,312,830	2,615,088
Community services	5,374,163	6,316,665	6,659,386	6,907,228	6,154,495	6,106,128	6,623,220	6,622,332
Public Works	3,782,973	4,033,064	8,836,925	10,608,001	7,075,398	19,991,034	15,240,604	9,718,841
Interest on long-term debt	9,795,463	9,379,808	9,142,551	8,779,300	9,607,504	9,228,093	2,414,053	501,265
Total governmental activities expenses	75,724,214	73,440,843	77,053,562	84,003,964	84,324,547	90,133,471	75,505,129	62,801,999
Business-type activities:								
Urban run-off	-	200,158	174,302	226,256	284,692	244,479	269,518	288,517
Water utility	9,854,572	11,220,538	11,195,152	11,272,767	14,025,354	14,067,772	15,512,551	14,883,425
Sewer utility	674,799	698,152	758,958	1,307,733	1,073,775	1,080,134	1,227,087	1,353,552
Sanitation	2,201,668	2,289,888	2,348,281	2,444,076	2,486,588	2,565,324	2,706,954	2,789,289
Information Technology External Support	1,245,054	898,850	979,157	1,329,165	1,958,140	1,230,704	1,269,800	1,271,540
Total business-type activities expenses	13,976,093	15,307,586	15,455,850	16,579,997	19,828,549	19,188,413	20,985,110	20,586,323
Total primary government expenses	\$ 89,700,307	\$ 88,748,429	\$ 92,509,412	\$ 100,583,961	\$ 104,153,096	\$ 109,321,884	\$ 96,491,039	\$ 83,388,322
Program Revenues:								
Governmental activities:								
Charges for services:								
General government	\$ 330,736	\$ 604,856	\$ 1,036,421	\$ 1,013,985	\$ 730,875	\$ 433,932	\$ 2,177,602	\$ 1,890,749
Public safety	10,955,628	11,192,257	12,201,407	12,624,891	13,651,052	12,878,402	13,155,339	7,315,925
Community Development	861,624	1,041,275	783,633	21,926	604,565	567,237	583,339	1,535,351
Community services	2,833,247	2,856,575	3,015,379	3,074,717	3,304,933	2,248,603	1,737,725	3,638,056
Public Works	686,196	553,802	484,085	490,302	469,533	2,262,329	1,955,188	1,688,142
Operating contributions and grants	4,938,360	6,972,249	8,279,190	6,362,517	5,111,923	3,542,733	6,364,114	4,955,213
Capital contributions and grants	5,062,631	5,480,879	6,941,249	6,761,134	15,640,554	4,501,863	8,472,778	3,495,573
Total governmental activities program revenues	25,668,422	28,701,893	32,741,364	30,349,472	39,513,435	26,435,099	34,446,085	24,519,009
Business-type activities:								
Charges for services:								
Urban run-off	-	196,799	314,762	329,143	333,760	351,123	377,950	361,321
Water utility	8,717,639	10,302,495	10,456,507	10,565,259	11,344,697	11,834,601	14,085,133	16,401,415
Sewer utility	402,532	1,443,307	1,776,075	1,875,014	1,894,176	2,008,507	1,932,161	2,018,405
Sanitation	2,666,432	2,734,180	2,844,356	2,959,536	3,037,508	3,138,125	3,158,430	3,199,135
Information Technology External Support	762,234	759,967	1,026,609	1,679,249	1,546,020	1,642,756	1,676,577	1,499,019
Operating contributions and grants	10,648	-	-	-	-	11,323	11,323	11,323
Capital contributions and grants	763,924	358,240	192,527	214,182	389,905	-	-	-
Total business-type activities program revenues	13,323,409	15,794,988	16,610,836	17,622,383	18,546,066	18,986,435	21,241,574	23,490,618
Primary government program revenues	\$ 38,991,831	\$ 44,496,881	\$ 49,352,200	\$ 47,971,855	\$ 58,059,501	\$ 45,421,534	\$ 55,687,659	\$ 48,009,627

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Net (Expense)/Revenue:								
Governmental activities	\$ (50,055,792)	\$ (44,738,950)	\$ (44,312,198)	\$ (53,654,492)	\$ (44,811,112)	\$ (63,698,372)	\$ (41,059,044)	\$ (38,282,990)
Business-type activities	(652,684)	487,402	1,154,986	1,042,386	(1,282,483)	(201,978)	255,664	2,904,295
Total primary government net expense	\$ (50,708,476)	\$ (44,251,548)	\$ (43,157,212)	\$ (52,612,106)	\$ (46,093,595)	\$ (63,900,350)	\$ (40,803,380)	\$ (35,378,695)
General Revenues and Other Changes in Net Position:								
Governmental activities:								
Taxes								
Property taxes	\$ 31,303,342	\$ 31,394,371	\$ 34,287,289	\$ 34,580,106	\$ 31,765,514	\$ 35,480,231	\$ 31,974,080	\$ 12,320,889
Transient occupancy taxes	1,299,306	1,251,177	1,313,822	1,213,362	1,176,279	1,227,168	1,280,631	1,401,140
Sales taxes	18,472,370	18,539,330	18,082,988	16,492,209	15,065,207	16,918,523	19,248,771	19,315,104
Franchise taxes	1,341,242	1,481,163	1,454,010	1,513,468	1,480,286	1,707,497	1,706,631	1,693,964
Business licenses taxes	1,007,763	1,028,943	1,071,528	1,079,260	1,035,032	948,184	975,742	985,391
Other taxes	2,116,492	2,156,450	428,933	371,063	396,676	379,639	555,291	690,840
Motor vehicle in lieu	320,531	261,414	224,381	183,026	163,475	184,311	70,227	71,847
Use of money and property	200,149	1,113,897	1,663,418	1,425,966	2,012,565	4,054,982	1,242,184	603,010
Gain on sale of assets	956,682	-	-	-	-	-	-	6,923
Contributions to permanent funds	-	-	-	-	-	-	1,322,891	-
Other	1,115,642	2,014,354	1,756,352	1,687,278	567,310	1,675,428	1,177,781	2,820,335
Extraordinary gain on dissolution of Redevelopment Agency ¹	-	-	-	-	-	-	119,686,954	21,522,303
Transfers	729,372	(143,851)	(169,931)	920,557	(3,588)	5,153,514	1,093,019	3,256,862
Total governmental activities	58,862,891	59,097,248	60,112,790	59,466,295	53,658,756	67,729,477	180,334,202	64,688,608
Business-type activities:								
Use of money and property	266,605	594,268	485,070	392,553	972,854	1,052,916	415,256	54,871
Other	340,053	445,646	680,266	-	70,830	-	952,030	1,320,699
Transfers	(729,372)	143,851	169,931	(920,557)	3,588	(5,153,514)	(1,093,019)	(3,256,862)
Total business-type activities	(122,714)	1,183,765	1,335,267	(528,004)	1,047,272	(4,100,598)	274,267	(1,881,292)
Total primary government	\$ 58,740,177	\$ 60,281,013	\$ 61,448,057	\$ 58,938,291	\$ 54,706,028	\$ 63,628,879	\$ 180,608,469	\$ 62,807,316
Change in Net Position:								
Governmental activities	\$ 8,807,099	\$ 14,358,298	\$ 15,800,592	\$ 5,811,803	\$ 8,847,644	\$ 4,031,105	\$ 139,275,158	\$ 26,405,618
Business-type activities	(775,398)	1,671,167	2,490,253	514,382	(235,211)	(4,302,576)	529,931	1,023,003
Total primary government	\$ 8,031,701	\$ 16,029,465	\$ 18,290,845	\$ 6,326,185	\$ 8,612,433	\$ (271,471)	\$ 139,805,089	\$ 27,428,621

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¹ During the fiscal year ended June 30, 2012, the assets, liabilities and fund balances of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of the dissolution of Redevelopment Agencies in California.

As provided in GASB Statement 44, the City of Brea has elected to report fiscal years beginning 2005-06 and forward.

CITY OF BREA
FUND BALANCES - GOVERNMENTAL FUNDS
LAST EIGHT FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11 ¹	Fiscal Year 2011-12 ²	Fiscal Year 2012-13 ³
General Fund	\$ 1,984,229	\$ 2,669,465	\$ 2,322,137	\$ 1,390,677	\$ 785,545	\$ -	\$ -	\$ -
Reserved	18,203,868	19,727,910	19,831,412	20,855,888	21,339,180	362,049	1,680,778	1,675,150
Nonspendable	-	-	-	-	-	7,048,285	6,546,809	7,486,895
Capital assets	-	-	-	-	-	7,048,285	6,546,809	7,486,895
Committed	-	-	-	-	-	798,915	590,613	687,696
Assigned	-	-	-	-	-	16,998,367	21,075,761	21,224,287
Unassigned	20,188,097	22,397,375	22,153,549	22,236,565	22,124,725	26,077,910	30,720,444	32,255,613
Total general fund	\$ 20,188,097	\$ 22,397,375	\$ 22,153,549	\$ 22,236,565	\$ 22,124,725	\$ 26,077,910	\$ 30,720,444	\$ 32,255,613
All Other Governmental Funds								
Reserved	\$ 18,539,891	\$ 39,552,796	\$ 38,414,600	\$ 28,011,213	\$ 47,477,075	\$ -	\$ -	\$ -
Unreserved, reported in:								
Special revenue funds	14,873,497	13,300,481	8,441,729	10,753,310	9,623,245	-	-	-
Capital projects funds	4,152,767	22,022,416	17,893,745	32,941,056	22,796,432	-	-	-
Debt service funds	16,200,927	16,067,790	18,483,272	17,927,243	12,049,980	-	-	-
Restricted	-	-	-	-	-	21,711,076	25,670,313	1,675,150
Assigned	-	-	-	-	-	9,915,996	1,705,413	52,188,042
Unassigned	-	-	-	-	-	(335,374)	(54,141)	(144,652)
Total all other governmental funds	\$ 91,141,782	\$ 91,543,483	\$ 83,233,346	\$ 89,033,422	\$ 91,946,732	\$ 101,547,295	\$ 27,321,585	\$ 53,234,975

As provided in GASB Statement 44, the City of Brea has elected to report fiscal years beginning 2005-06 and forward.

¹ During the fiscal year ended June 30, 2011, the City adopted GASB Statement 54 which established new categories for fund balances.

² During the fiscal year ended June 30, 2012, the assets, liabilities (current and long-term debt obligations) and fund balances of the former Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of the dissolution of redevelopment agencies in California.

³ During the fiscal year ended June 30, 2013, the Successor Agency transferred to the City of Brea the housing assets of the former Brea Redevelopment Agency.

CITY OF BREA

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST EIGHT FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Revenues:								
Taxes	\$ 57,344,895	\$ 57,844,388	\$ 58,184,372	\$ 56,253,190	\$ 55,174,409	\$ 53,658,443	\$ 52,965,161	\$ 33,464,585
Licenses and permits	463,024	414,587	389,220	496,386	468,491	502,449	468,154	485,113
Intergovernmental	2,628,195	3,762,077	8,114,101	6,208,976	3,678,295	9,065,309	9,057,154	7,391,599
Contributions	-	-	-	-	13,400,000	-	6,012,024	2,299,568
Charges for services	12,703,351	13,524,516	13,946,450	15,041,718	14,754,248	17,578,136	16,383,685	12,386,985
Use of money and property ¹	3,679,272	7,393,552	7,647,945	5,219,651	3,833,071	3,625,103	3,212,863	1,797,849
Fines and forfeitures	1,551,306	1,359,796	2,064,038	1,834,868	2,160,058	1,823,981	1,811,929	1,500,354
Miscellaneous	1,252,321	2,509,005	2,549,669	2,612,448	2,566,836	3,431,088	5,032,030	5,377,484
Total revenues	79,622,364	86,807,921	92,895,795	87,667,237	96,035,408	89,684,509	94,943,000	64,703,537
Expenditures:								
General Government	12,081,211	8,514,794	6,680,795	7,125,057	6,302,472	6,199,044	6,889,583	5,569,582
Public Safety	28,389,417	32,344,220	34,381,768	36,548,783	35,669,855	34,916,663	36,925,686	35,270,155
Development Services ²	9,051,932	8,122,315	7,568,746	9,177,580	5,177,066	-	-	5,862,597
Community Development ²	-	-	-	-	-	6,581,513	2,213,502	72,095,136
Community Services	4,811,257	5,729,198	5,982,070	6,470,313	6,108,153	5,808,160	5,930,685	6,141,746
Maintenance Services ²	3,334,639	3,765,916	4,299,500	6,935,005	4,201,954	-	-	-
Public Works ²	-	-	-	-	-	4,550,487	4,715,759	4,769,385
Capital Outlay	3,049,250	6,940,525	22,321,493	7,601,076	13,152,533	26,027,011	12,901,819	6,896,432
Debt service:								
Principal retirement	7,317,145	7,485,660	7,716,246	7,268,934	8,476,465	8,402,943	9,021,235	368,460
Interest and fiscal charges	9,133,951	8,968,007	8,800,953	7,900,652	8,899,460	8,980,763	4,246,122	460,878
Debt issuance costs	-	-	-	720,002	145,961	649,830	-	-
Pass-through agreement payments	2,276,832	2,449,524	2,193,506	2,564,792	3,437,854	2,537,558	457,812	-
SERAF payment	-	-	-	-	8,983,766	1,849,599	-	-
Total expenditures	79,445,634	84,320,159	99,945,077	92,312,194	100,555,539	106,503,571	83,302,203	137,434,371
Excess (deficiency) of revenues over (under) expenditures	176,730	2,487,762	(7,049,282)	(4,644,957)	(4,520,131)	(16,819,062)	11,640,797	(72,730,834)
Other Financing Sources (Uses):								
Transfers in	12,536,427	17,112,729	31,616,075	27,097,193	23,268,409	33,603,347	11,074,821	6,904,709
Transfers out	(11,969,090)	(18,771,512)	(33,120,756)	(25,761,520)	(23,361,808)	(28,816,796)	(10,207,113)	(4,733,798)
Sale of capital assets	1,083,330	-	-	-	-	-	-	6,850
Capital leases	139,500	1,782,000	-	327,376	-	-	-	-
Long-term debt issued	-	-	-	20,925,000	7,415,000	38,594,323	-	-
Refunded debt redeemed	-	-	-	(12,060,000)	-	(13,185,000)	-	-
Bond premium	-	-	-	-	-	351,694	-	-
Bond discount	-	-	-	-	-	(174,757)	-	-
Total other financing sources (uses)	1,790,167	123,217	(1,504,681)	10,528,049	7,321,601	30,372,811	867,708	2,177,761
Extraordinary gain on dissolution of Redevelopment Agency ^{3,4}	-	-	-	-	-	-	(82,091,681)	21,522,303
Net change in fund balances	\$ 1,966,897	\$ 2,610,979	\$ (8,553,963)	\$ 5,883,092	\$ 2,801,470	\$ 13,553,749	\$ (69,583,176)	\$ (49,030,770)
Debt service as a percentage of noncapital expenditures	22.28%	22.21%	21.28%	18.76%	20.05%	20.10%	17.30%	1.52%

As provided in GASB Statement 44, the City of Brea has elected to report fiscal years beginning 2005-06 and forward.

¹ Beginning fiscal year ended June 30, 2010, the amount reported is a combination of investment and rental income.

² Effective July 1, 2010, Development Services and Maintenance Services Departments were eliminated and the Community Development and Public Works Departments were created due to the City of Brea's reorganization plan.

³ During the fiscal year ended June 30, 2012, the assets, liabilities (current and long-term debt obligations) and fund balances of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of the dissolution of redevelopment agencies in California.

CITY OF BRE A

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Other Property ¹	Total Taxable Assessed Value ²	Total Direct Tax Rate
2004	\$2,356,336,585	\$1,220,027,729	\$ 864,750,739	\$ 480,714,590	\$4,921,829,643	\$ 0.17402
2005	2,583,635,646	991,557,410	647,793,880	1,160,480,511	5,383,467,447	0.17402
2006	2,859,164,791	997,440,500	673,513,691	1,260,261,500	5,790,380,482	0.17402
2007	3,150,677,401	1,121,437,204	725,636,109	1,503,284,513	6,501,035,227	0.17402
2008	3,369,302,387	1,178,077,438	730,088,623	1,528,851,283	6,806,319,731	0.17402
2009	3,420,432,796	1,535,537,061	1,161,803,074	917,687,313	7,035,460,244	0.17402
2010	3,319,962,213	1,554,892,370	1,199,008,537	905,419,292	6,979,282,412	0.17402
2011	3,579,683,419	1,548,534,540	1,135,559,625	753,830,318	7,017,607,902	0.17402
2012	3,637,044,394	1,543,677,299	1,077,624,463	723,537,802	6,981,883,958	0.17402
2013	3,805,741,803	1,544,954,532	1,145,495,173	682,982,424	7,179,173,932	0.17402

¹ Other property includes recreational, institutional, vacant, and miscellaneous property.

² Tax-exempt property is excluded from the total taxable assessed value.

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Sources: HdL Coren & Cone; Orange County Assessor

**CITY OF BRE A
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST EIGHT FISCAL YEARS**

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
City Direct Rates:	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902
City of Brea	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500
City of Brea Paramedics Tax ¹								
Total City Direct Rate	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402
Overlapping Rates:								
Brea-Olinda Unified School District General Fund	0.43988	0.43988	0.44000	0.43990	0.43990	0.43990	0.43990	0.43990
Brea-Olinda Unified School District Bonds	0.92436	0.02183	0.02241	0.02270	0.02285	0.02426	0.02367	0.02365
NOC Community College General Fund	0.06663	0.06663	0.06700	0.06660	0.06660	0.06660	0.06660	0.06660
NOC Community College Bonds	0.01666	0.01444	0.01502	0.01493	0.01662	0.01758	0.01742	0.01902
Educational Revenue Augmentation Fund	0.18261	0.18300	0.18300	0.18260	0.18260	0.18260	0.18260	0.18260
Orange County Department of Education	0.03908	0.03908	0.03900	0.03910	0.03910	0.03910	0.03910	0.03910
Orange County Flood Control District	0.01888	0.01888	0.01900	0.01888	0.01880	0.01880	0.01880	0.01888
Orange County General Fund	0.05885	0.05885	0.05900	0.05890	0.05890	0.05890	0.05890	0.05890
Orange County Harbors, Beaches & Parks	0.01459	0.01459	0.01460	0.01459	0.01459	0.01459	0.01459	0.01459
Orange County Library District	0.01592	0.01592	0.01590	0.01592	0.01592	0.01592	0.01592	0.01592
Orange County Sanitation District Two Operating	0.03080	0.03080	0.03100	0.03080	0.03080	0.03080	0.03080	0.03080
Orange County Transportation Authority	0.00268	0.00268	0.00270	0.00268	0.00268	0.00268	0.00268	0.00268
Orange County Vector Control	0.00106	0.00106	0.00110	0.00107	0.00107	0.00107	0.00107	0.00107
Metropolitan Water District	0.00520	0.00470	0.00450	0.00430	0.00430	0.00370	0.00370	0.00350
Total Direct Rate	\$ 1.99122	\$ 1.08597	\$ 1.08825	\$ 1.08699	\$ 1.08875	\$ 1.09052	\$ 1.08977	\$ 1.09123

As provided in GASB Statement 44, the City of Brea has elected to report fiscal years beginning 2005-06 and forward.

¹ The City of Brea Paramedic Tax rate is per \$100 of assessed value.

NOTES:

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of bonded debt and property tax overrides.

The Redevelopment Agency tax rate is not presented above in that property within the project area is subject to a tax rate of 1.0495%, which includes the Proposition 13 property tax rate of 1.00% and the applicable voter approved debt.

Source: HdL Coren & Cone, Orange County Assessor Combined Tax Rolls

CITY OF BREA
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO

Taxpayer	Fiscal Year 2012-13			Fiscal Year 2003-04		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Retail Property Trust	\$ 226,432,457	1	3.09%	\$ 182,070,050	1	3.62%
Beckman Coulter Inc.	160,824,020	2	2.20%	77,432,838	4	1.54%
ABS CA-O DC2 LLC	103,699,998	3	1.42%	97,015,903	2	1.93%
Acquiport Brea	101,387,999	4	1.38%			
Olen Pointe Brea LLC	100,326,521	5	1.37%	67,884,613	5	1.35%
FW CA-Brea Marketplace LLC	96,755,699	6	1.32%			
Maguire Properties LP	75,265,515	7	1.03%			
Brea Union Plaza II LLC	73,449,003	8	1.00%			
ICE Holdings LLC	50,592,207	9	0.69%	43,290,000	8	0.86%
Mercury Casualty Company	49,395,920	10	0.67%			
Prudential Insurance Co. America				84,046,208	3	1.67%
Equity Office Properties				51,055,107	7	1.01%
Union Oil Company of California				52,893,428	6	1.05%
Richard C Colyear Trust				37,749,320	9	0.75%
Brea Community Hospital				33,651,443	10	0.67%
	<u>\$ 1,038,129,339</u>		<u>14.17%</u>	<u>\$ 727,088,910</u>		<u>14.45%</u>

The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

Sources: HdL, Coren & Cone, County of Orange Assessor's Office

CITY OF BREA
 PROPERTY TAX LEVIES AND COLLECTIONS
 LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2004	\$ 27,537,089	\$ 27,234,459.0	98.90%	\$ 134,349	\$ 27,368,808	99.39%
2005	28,660,066	28,835,353	100.61	220,797	29,056,150	101.38%
2006	28,914,427	30,893,196	106.84	410,146	31,303,342	108.26%
2007	31,242,316	30,996,950	99.21	397,421	31,394,371	100.49%
2008	34,675,457	34,287,289	98.88	370,616	34,657,905	99.95%
2009	34,655,751	34,504,139	99.56	354,837	34,858,976	100.59%
2010	33,304,101	32,620,080	97.95	252,721	32,872,801	98.70%
2011	34,970,273	35,335,027	101.04	145,204	35,480,231	101.46%
2012	32,242,292	31,678,555	98.25	295,525	31,974,080	99.17%
2013 ¹	12,449,282	12,125,387	97.40	195,502	12,320,889	98.97%

¹Beginning February 1, 2012, the property tax revenues of the former Brea Redevelopment Agency are now accounted for in the Successor Agency to the Brea Redevelopment Agency.

NOTE:

The amounts presented include property taxes and Redevelopment Agency tax increment. This schedule also includes amounts collected by the City and Redevelopment Agency that were passed-through to other agencies.

Source: County of Orange Auditor Controller's Office

CITY OF BREA

**RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Governmental Activities			Business-Type Activities		Total Primary Government	Percentage of Personal Income ⁹	Debt Per Capita ⁹
	Tax Allocation Bonds ^{1,7,8}	Lease Revenue Bonds ⁸	Capital Leases ^{2,3,5}	Total Governmental Activities	Water Revenue Bonds ^{4,6}			
2004	\$ 204,624,895	\$ 17,930,000	\$ 1,231,693	\$ 223,786,588	\$ 17,865,000	\$ 241,651,588	14.81%	\$5,772
2005	199,366,857	17,560,000	1,691,034	218,617,891	17,180,000	235,797,891	14.22%	5,608
2006	193,810,364	16,850,000	3,164,387	213,824,751	16,475,000	230,299,751	12.34%	4,883
2007	187,943,944	16,095,000	4,356,399	208,395,343	15,740,000	224,135,343	11.91%	4,748
2008	181,975,649	15,310,000	3,552,175	200,837,824	14,975,000	215,812,824	11.17%	4,477
2009	188,442,073	14,495,000	2,993,624	205,930,697	25,800,000	231,730,697	11.43%	4,592
2010	178,909,196	16,485,000	6,716,146	202,110,342	38,095,000	240,205,342	11.46%	4,629
2011	197,967,628	15,360,000	6,106,031	219,433,659	37,760,000	257,193,659	13.10%	5,247
2012	-	2,760,000	5,161,902	7,921,902	37,265,000	45,186,902	2.21%	906
2013	-	2,760,000	4,659,564	7,419,564	36,325,000	43,744,564	2.10%	867

¹ For the fiscal year ended June 30, 2004, the Redevelopment Agency issued over \$120 million of tax allocation refunding bonds in July 2003, which included over \$26 million in new bonds, resulting in the increase.

² For the fiscal year ended June 30, 2006, the City of Brea entered into two lease-purchase agreements totaling \$1,729,083.

³ For the fiscal year ended June 30, 2007, the City of Brea entered into a lease-purchase agreement for \$1,782,000.

⁴ For the fiscal year ended June 30, 2009, the Brea Public Financing Authority issued over \$25 million of water revenue refunding bonds.

⁵ For the fiscal year ended June 30, 2010, the City of Brea entered into a lease-purchase agreement for \$4,580,000.

⁶ For the fiscal year ended June 30, 2010, the Brea Public Financing Authority issued over \$12 million of water revenue bonds.

⁷ For the fiscal year ended June 30, 2011, the Brea Redevelopment Agency issued over \$29 million of tax allocation bonds.

⁸ For the fiscal year ended June 30, 2012, outstanding long term debts of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of dissolution of redevelopment agencies in California.

⁹ See the Schedule of Demographic and Economic Statistics for personal income and population data.

NOTE: Details regarding the outstanding debt can be found in the notes of the financial statements.

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CITY OF BREA

**RATIO OF NET GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	General Bonded Debt Outstanding			Restricted for Debt Service ³	Net Bonded Debt	Percentage of Assessed Value of Property ⁴	Per Capita ⁵
	Tax Allocation Bonds ^{1,2,3}	Lease Revenue Bonds ³	Total				
2004	\$ 204,624,895	\$ 17,930,000	\$ 222,554,895	\$ 3,249,602	\$ 219,305,293	4.46%	\$5,772
2005	199,366,857	17,560,000	216,926,857	3,277,245	213,649,612	3.97%	5,608
2006	193,810,364	16,850,000	210,660,364	3,172,291	207,488,073	3.58%	4,883
2007	187,943,944	16,095,000	204,038,944	3,147,593	200,891,351	3.09%	4,748
2008	181,975,649	15,310,000	197,285,649	3,188,031	194,097,618	2.85%	4,477
2009	185,442,073	14,495,000	199,937,073	3,713,382	196,223,691	2.79%	4,592
2010	178,909,196	16,485,000	195,394,196	3,758,776	191,635,420	2.75%	4,629
2011	197,967,628	15,360,000	213,327,628	6,647,628	206,680,000	2.95%	5,247
2012	-	2,760,000	2,760,000	301,972	2,458,028	0.04%	60
2013	-	2,760,000	2,760,000	291,130	2,468,870	0.03%	60

¹ For the fiscal year ended June 30, 2004, the Redevelopment Agency issued over \$120 million of tax allocation refunding bonds in July, 2003, which included over \$26 million in new bonds, resulting in the increase.

² For the fiscal year ended June 30, 2011, the Redevelopment Agency issued over \$29 million of tax allocation bonds in June, 2011, which included over \$22 million in new bonds resulting in the increase

³ For the fiscal year ended June 30, 2012, outstanding long term debts of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of dissolution of Redevelopment Agencies in California.

⁴ See schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

⁵ Population data can be found in schedule of Demographic and Economic Statistics.

NOTE: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

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CITY OF BREA

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2013**

City Assessed Valuation: \$ 7,179,774,942

	Estimated Percentage Applicable ¹	Debt Outstanding	Estimated Share of Overlapping Debt
Overlapping Debt Repaid with Property Taxes:			
Metropolitan Water District	0.341%	\$ 165,085,000	\$ 562,940
North Orange County Joint Community College District	7.242	213,394,001	15,453,994
Brea-Olinda Unified School District	91.073	20,334,029	18,518,810
Placentia-Yorba Linda Unified School District	1.327	263,061,996	3,490,833
Fullerton Joint Union High School District	1.971	52,312,910	1,031,087
Fullerton School District	0.009	37,805,458	3,402
La Habra City School District	11.250	18,514,264	2,082,855
City of Brea Community Facilities Districts	100	17,283,000	17,283,000
Brea-Olinda Unified School District Community Facilities District No. 95-1	100	7,295,000	7,295,000
Total overlapping debt repaid with property taxes		<u>795,085,658</u>	<u>65,721,921</u>
Overlapping Other Debt:			
Orange County General Fund Obligation	1.683%	\$ 190,546,000	\$ 3,206,889
Orange County Pension Obligations	1.678	306,287,244	5,139,500
Orange County Board of Education Certificates of Participation	1.678	15,770,000	264,621
Municipal Water District of Orange County Water Facilities Corporation	2.010	10,035,000	201,704
North Orange Regional Occupation Program Certificates of Participation	7.444	10,920,000	812,885
Brea-Olinda Unified School District Certificates of Participation	91.073	24,285,000	22,117,078
Placentia-Yorba Linda Unified School District Certificates of Participation	1.327	107,935,670	1,432,306
Fullerton Joint Union High School District Certificates of Participation	1.971	22,255,000	438,646
Fullerton School District Certificates of Participation	0.009	<u>6,470,000</u>	<u>582</u>
Total gross and overlapping general fund debt		<u>694,503,914</u>	<u>33,614,211</u>
Less: MWDOC Water Facilities Corporation (100% self-supporting)			<u>201,704</u>
Total net and overlapping general fund debt			<u>\$ 33,412,507</u>
Total Gross overlapping debt			\$ 99,336,132
Total net overlapping debt			\$ 99,134,428
City of Brea Direct Debt:			
Lease Revenue Bonds			2,760,000
Capital Leases			<u>\$ 4,659,564</u>
Total City of Brea Direct Debt			<u>7,419,564</u>
Combined total gross direct and overlapping debt			\$ 106,755,696 ³
Combined total net direct and overlapping debt			\$ 106,553,992

¹ Percentage of overlapping agency's assessed valuation located within the boundaries of the City.

² Previously classified Orange County Sanitation District certificates of participation have been reclassified as district revenue supported issues and are no longer included as a general fund debt in the debt statement.

³ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds.

NOTE:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Brea. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc.

**CITY OF BREA
LEGAL DEBT MARGIN INFORMATION
LAST EIGHT FISCAL YEARS**

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Assessed value	\$ 5,790,380,482	\$ 6,501,035,227	\$ 6,806,319,731	\$ 7,035,460,244	\$ 6,979,282,412	\$ 6,979,282,412	\$ 7,328,303,022	\$ 7,556,214,577
Debt limit: 3.75% of assessed value	217,139,268	243,788,821	255,236,990	263,829,759	261,725,090	261,723,090	274,811,363	283,366,047
Legal debt margin	<u>\$ 5,573,241,214</u>	<u>\$ 6,257,246,406</u>	<u>\$ 6,551,082,741</u>	<u>\$ 6,771,630,485</u>	<u>\$ 6,717,559,322</u>	<u>\$ 6,717,559,322</u>	<u>\$ 7,053,491,659</u>	<u>\$ 7,272,866,530</u>
Total net debt applicable to limit								\$ -
Total general obligation bonded debt								\$ 283,366,047
Less net assets in debt service fund								
Total amount of debt applicable to debt limit								\$ 283,366,047
Legal debt margin								\$ 283,366,047

As provided in GASB Statement 44, the City of Brea has elected to report fiscal years beginning 2005-06 and forward.

NOTE:
Under state finance law, the City of Brea's outstanding general obligation debt should not exceed 3.75 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF BREA

**PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND NINE YEARS AGO**

Employer	Fiscal Year 2012-13			Fiscal Year 2003-2004		
	Employees	Rank	Percent of Total City Employment ¹	Employees ²	Rank	Percent of Total City Employment ³
Bank of America ⁴	1,500	1	7.32%	1,500	4	7.23%
Mercury Insurance Group	1,500	2	7.32%	3,000	2	14.46%
Beckman Coulter, Inc.	1,200	3	5.85%	3,000	1	14.46%
Albertson's, Inc.	680	4	3.32%	1,200	5	5.78%
Kirkhill - TA Company	700	5	3.41%	550	8	2.65%
Brea Olinda Unified School District	630	6	3.07%	895	6	4.31%
Nordstrom Department Store	475	7	2.32%	-	-	-
Veterinary Pet Insurance Co.	400	8	1.95%	-	-	-
Bristol Industries	400	9	1.95%	-	-	-
Peterson Brothers Construction	300	10	1.46%	600	7	2.89%
Harte-Hanks Communications				500	10	2.41%
Capital Group				1,600	3	7.71%
RSKCo				500	9	2.41%
Total	<u>7,785</u>		37.97%	<u>13,345</u>		64.31%

¹ Based upon the Employment Development Department's estimate of 21,600 residents employed in 2012 out of a total population of 41,394.

² Information from Annual Report for the 1997 Area C Senior Lien Bonds.

³ Based upon the Employment Development Department's total Orange County employment, and the assumption that a similar ratio of Brea residents was employed in 2003-04 as in 2012-13, the estimated number of employed residents used was 20,754. Note: this methodology was used because City-specific data was not available for this period.

⁴ Number of Employees for FY 2012-13 came from data provided by the City's Business License Software.

Source: City of Brea

**CITY OF BREA
FULL-TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS**

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	65	59	60	67	68	69	66	57	57	59
Public Safety	224	226	227	226	226	226	211	213	213	212
Development Services	39	31	31	32	32	33	29	-	-	-
Community Development ¹	-	-	-	-	-	-	-	20	20	20
Community Services	48	46	48	50	50	52	48	39	48	52
Maintenance Services	43	37	38	38	38	42	32	-	-	-
Public Works ²	-	-	-	-	-	-	-	37	39	42
Water Utility	16	16	15	16	16	14	16	16	14	15
Sewer Utility	2	2	3	4	4	4	6	6	6	6
Sanitation	2	3	2	2	2	2	2	2	2	2
Mobile Data System	4	3	3	3	1	1	-	-	-	-
External Information Technology ³	-	-	-	-	-	-	9	9	9	9
Total	443	423	427	437	437	443	409	399	408	417

¹ Prior to FY2011, Community Development was reported under development services function.

² Prior to FY2011, Public Works was reported under maintenance services function.

³ Prior to FY2010, External Information Technology Services was reported under general government function.

Source: City of Brea Adopted Budget and Supplements to the Adopted Budget, 2003-04 through 2012-13.

CITY OF BREA

**OPERATING INDICATORS BY FUNCTION
LAST SEVEN FISCAL YEARS**

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Function:								
Police								
Calls dispatched	32,043	20,700	19,334	22,232	22,231	23,071	24,650	22,810
Crime reports	6,620	9,882	5,585	7,076	5,475	4,726	4,491	4,450
Moving citations	10,827	16,289	8,335	7,123	9,192	9,024	8,215	5,573
Parking citations	15,853	14,504	14,836	14,118	20,639	15,469	16,034	10,651
Water								
Number of customer accounts	11,763	11,893	11,842	11,863	11,953	11,878	12,095	12,258
Average daily consumption (millions of gallons)	9.87	10.12	10.79	9.26	8.83	8.53	9.39	9.77
Water samples taken	672	1,830	1,753	624	624	627	672	840
Sewers								
Feet of sewer mains root cut/chemically treated	600	4,825	2,410	-	-	-	-	-
Development Services ⁵								
Permits issued	1,505	1,249	1,096	1,218	979	-	-	-
Inspections conducted	5,808	3,994	4,945	4,850	4,628	-	-	-
Traffic signals maintained	50	50	50	51	51	-	-	-
Infrastructure improvement projects administered	6	9	14	12	13	-	-	-
Community Development								
Permits issued	-	-	-	-	-	1,097	1,180	1,404
Inspections conducted	-	-	-	-	-	4,316	5,030	5,604
Maintenance ⁵								
Square feet of graffiti removal	66,000	7,675	11,232	12,755	15,048	-	-	-
Streetsweeping miles	18,304	20,618	26,341	22,943	20,777	-	-	-
Trees pruned per year	2,880	2,322	2,642	2,706	2,906	-	-	-
Public Works								
Square feet of graffiti removal	-	-	-	-	-	12,528	9,576	10,944
Streetsweeping miles	-	-	-	-	-	20,609	18,398	19,365
Trees pruned per year	-	-	-	-	-	2,702	2,806	3,136
Traffic signals maintained	-	-	-	-	-	51	52	52
Infrastructure improvement projects administered	-	-	-	-	-	9	17	6
Culture and Recreation								
Gallery promotions and mailings	55,815	46,582	42,151	43,962	21,647	26,903	22,934	18,500
Gallery attendance	6,650	6,624	6,004	7,495	6,934	7,081	11,693	9,596
Theatre annual program brochures mailed	22,000	20,000	23,313	24,532	35,053	37,848	37,843	10,724
Theatre attendance	16,956	16,986	16,419	17,742	13,964	11,983	12,829	12,516
General government								
Accounts payable warrants issued	8,318	8,493	8,624	7,772	6,233	6,043	8,182	7,872

As provided in GASB Statement 44, the City of Brea has elected to report fiscal years beginning 2005-06 and forward.

¹ The reporting methodology employed beginning fiscal year 2007-08 was changed; going forward, this methodology will remain consistent for the sake of comparability.

² Figure corrected with fiscal year 2011-12 CAFR.

³ Beginning in fiscal year 2007-08, the reported streetsweeping miles included curb miles from the City's backup sweeper which was not included in the prior fiscal year.

⁴ Doesn't include five flashing beacons the City maintains

⁵ Beginning in fiscal year 2010-11, function classified as Public Works or Community Development.

Source: City of Brea

**CITY OF BREA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Function:										
Public Safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	4	4	4	4	4	4	4	4	4	4
Highways and streets										
Miles of streets	115	118	118	119	119	119	119	119	119	119
Street lights	3,177	3,301	3,301	3,388	3,388	3,388	3,388	3,388	3,388	3,388
Water										
Number of water wells	1	1	1	1	1	1	1	1	1	1
Number of reservoirs	6	6	6	6	6	6	6	6	6	6
Miles of lines & mains	162	162	162	167	167	167	167	167	167	167
Sewer										
Miles of sanitary sewers	108.50	108.50	108.50	110.00	110.00	110.00	110.00	110.00	110.00	110.00
Miles of storm drains	24.00	24.00	24.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Culture and Recreation										
Number of parks	10	10	10	10	10	11	11	11	11	12
Number of other facilities	7	7	7	7	7	7	7	7	7	7

Source: City of Brea

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the principal legal documents relating to the Bonds. Such summary is not intended to be definitive. Reference is made to the actual documents (copies of which are available from the City) for the complete terms thereof.

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

“Additional Revenues” means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

- An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be financed from the proceeds of such Parity Debt or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any other more recent 12-month period selected by the City, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer or Fiscal Consultant employed by the City.
- An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such Parity Debt but which, during all or any part of such Fiscal Year or such other more recent 12-month period selected by the City, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such other 12-month period, all as shown by the certificate or opinion of an Independent Accountant or Fiscal Consultant employed by the City.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the City or the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Year” means each twelve-month period extending from July 2 in one calendar year to July 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including July 1, 2015.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the City in which the Office of the Trustee is located.

“Closing Date” means the date of original issuance of the Bonds.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

“Fiscal Consultant” means any consultant or firm of such consultants appointed by the City and who, or each of whom: (a) is judged by the City to have experience in matters relating to the financing of water enterprises; (b) is in fact independent and not under domination of the City; (c) does not have any substantial interest, direct or indirect, with the City; and (d) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to investment earnings thereon; but excluding (a) connection charges, (b) the proceeds of any *ad valorem* property taxes levied for the purpose of paying general obligation bonds of the City relating to the Water System, (c) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City levied for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Water System, and (d) the Refundable Credits.

“Independent Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

“Installment Payment Date” means, with respect to any Interest Payment Date, the 5th Business Day immediately preceding such Interest Payment Date.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Bond Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Bond Year:

- (a) the aggregate amount of the Installment Payments coming due and payable in such Bond Year, except to the extent payable from any security deposit under Section 7.1;

- (b) the principal amount of the Prior Installment Payments and all outstanding Parity Debt, if any, coming due and payable by their terms in such Bond Year; and
- (c) the amount of interest which would be due during such Bond Year on the aggregate principal amount of the Prior Installment Payments and all outstanding Parity Debt, if any, which would be outstanding in such Bond Year if the Prior Installment Payments and such Parity Debt are retired as scheduled.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

“Office” means the corporate trust office of the Trustee in Los Angeles, California, or such other or additional offices as the Trustee may designate in writing to the Authority from time to time as the corporate trust office for purposes of the Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Water System, including but not limited to (a) costs of acquisition of water to be supplied by the Water System, (b) costs of electricity and other forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water System; but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Water System, including but not limited to the Installment Payments and any Parity Debt, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Overdue Rate” means the highest rate of interest on any of the outstanding Bonds.

“Owner” means, with reference to any Bond, the person in whose name the Ownership of such Bond is registered on the registration books maintained by the Trustee for such purpose.

“Parity Debt” means any bonds, notes, leases, installment sale agreements or other obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments, entered into or issued under and in accordance with the Installment Sale Agreement.

“Parity Debt Documents” means, collectively, the indenture of trust, trust agreement or other document authorizing the issuance of any Parity Debt or any securities which evidence Parity Debt.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any federal agencies whose obligations are backed by the full faith and credit of the United States of America.
- (c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and which are rated in the highest short-term rating category by S&P (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).
- (d) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize under federal law, which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A-1 or better by S&P.
- (e) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee or its affiliates) in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation, including the Bank Insurance Fund and the Savings Association Insurance Fund.
- (f) Investment agreements with a financial institution the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated AA or better from S&P, by the terms of which the Trustee is permitted to withdraw the invested funds if the rating from S&P falls below AA. For purpose of this clause, the rating category “AA” includes all gradations within such rating category.
- (g) Bonds, notes or other obligations issued by any corporation or public agency, which as of the date of purchase are rated AA or better from S&P. For purpose of this clause, the rating category “AA” includes all gradations within such rating category.
- (h) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

“Prior Bonds” means, collectively, all of the following outstanding bonds issued by the Authority with respect to the Water System:

- (a) Brea Public Financing Authority 2009 Water Revenue Refunding Bonds, Series A issued by the Authority in the aggregate original principal amount of \$12,855,000;
- (b) Brea Public Financing Authority 2009 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds – Direct Payment) issued by the Authority in the aggregate original principal amount of \$12,945,000;
- (c) Brea Public Financing Authority 2010 Water Revenue Bonds (Solar and Energy Efficiency Projects) Series A issued by the Authority in the aggregate original principal amount of \$2,410,000; and
- (d) Brea Public Financing Authority 2010 Water Revenue Bonds (Solar and Energy Efficiency Projects) Series B (Federally Taxable – Build America Bonds – Direct Payment) issued by the Authority in the aggregate original principal amount of \$9,885,000.

“Prior Installment Payments” means, collectively, the installment payments which are payable by the City under Section 4.4 of each of the Prior Installment Sale Agreements.

“Prior Installment Sale Agreements” means, collectively, (a) the Installment Sale Agreement dated as of May 1, 2009, between the Authority as seller and the City as purchaser, and (b) the Installment Sale Agreement dated as of April 1, 2010, between the Authority as seller and the City as purchaser.

“Rate Stabilization Fund” means any fund or account established and held by the City as a fund for the stabilization of rates and charges imposed by the City with respect to the Water System, which fund is established, held and maintained in accordance with the Installment Sale Agreement.

“Refundable Credits” means, with respect to any issue of Prior Bonds which constitute Build America Bonds, the amounts (if any) which are payable to the City or the Authority with respect to such issue of Prior Bonds by the federal government under Section 6431 of the Tax Code.

“Revenues” means: (a) all of the Installment Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

“S&P” means Standard & Poor’s, a division of the McGraw Hill Companies, of New York, New York, its successors and assigns.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official guidance published, under the Tax Code.

“Water Rights” means the 1,277.72 shares of stock in the California Domestic Water Company which were purchased by the City on May 15, 2014.

“Water System” means the entire water treatment, production, storage and distribution system owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the City for the collection, treatment and supply of water within the service area of such system, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the City.

“Water Utility Fund” means the existing fund by that name established and held by the City with respect to the Water System.

INSTALLMENT SALE AGREEMENT

Acquisition and Sale of the Water Rights

The Authority agrees to purchase the Water Rights from the City on the Closing Date for a purchase price to be funded from the net proceeds of the Bonds. The Authority shall pay such purchase price from the proceeds of the Bonds, and shall take all actions as may be required to cause such payment to be made to the City in full on the Closing Date. The City represents and warrants that the purchase price to be paid by the Authority for the Water Rights is not in excess of the amount originally paid by the City to California Domestic Water Company to purchase the Water Rights.

Concurrently with the purchase of the Water Rights by the Authority from the City, the Authority agrees to sell the Water Rights back to the City upon the terms and conditions set forth in the Installment Sale Agreement.

Installment Payments; Pledge of Net Revenues

The City agrees to pay the Installment Payments to the Authority as the purchase price of the Water Rights. The Installment Payments are payable in semiannual installment payments in the respective amounts and on the respective Installment Payment Dates specified in the Installment Sale Agreement. If the City fails to make any Installment Payment when due, the payment in default will continue as an obligation of the City until fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment, at the Overdue Rate.

The Installment Payment are payable solely from the Net Revenues and other funds pledged under the Installment Sale Agreement. The City pledges all of the Net Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture to secure the Installment Payments and any Parity Debt.

All of the Gross Revenues will be deposited by the City immediately upon receipt in the Water Utility Fund which has previously been established by the City and which the City will continue to hold and maintain at all times during the term of the Installment Sale Agreement. The City agrees that all Gross Revenues will be held by the City in the Water Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority) and the Bond Owners, and for the benefit of the owners of the Prior Bonds and the owners of any Parity Debt.

Assignment

Certain rights of the Authority, including but not limited to the right of the Authority to receive payment of the Installment Payments, have been assigned by the Authority to the Trustee in trust under the Indenture, for the benefit of the Owners of the Bonds. The Authority directs the City, and the City agrees, to pay to the Trustee at its Trust Office, all Installment Payment and prepayments thereof.

Deposit and Application of Revenues

The City has previously established the Water Utility Fund, which the City will continue to hold and maintain for the purposes and uses set forth in the Installment Sale Agreement, the Prior Installment Sale Agreements and any Parity Debt Documents. The City shall deposit all of the Gross Revenues in the Water Utility Fund immediately upon receipt. The City shall apply amounts in the Water Utility Fund as set forth in the Prior Installment Sale Agreements, the Installment Sale Agreement and any Parity Debt Documents. Amounts on deposit in the Water Utility Fund will be applied by the City to pay when due the following amounts in the following order of priority:

- (a) all Operation and Maintenance Costs;
- (b) the Prior Installment Payments, the Installment Payments and all payments of principal of and interest on any Parity Debt;
- (c) any other payments required to comply with the provisions of the Prior Installment Sale Agreements, the Installment Sale Agreement and any Parity Debt Documents; and
- (d) any other purposes authorized under the Installment Sale Agreement.

The City shall manage, conserve and apply the Net Revenues on deposit in the Water Utility Fund in such a manner that all deposits required to be made under the preceding subsection (b) will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the City may use and apply moneys in the Water Utility Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Water System, (iii) the prepayment of any other obligations of the City relating to the Water System, or (iv) any other lawful purposes of the City.

No Preference or Priority

Payment of the Prior Installment Payments, the Installment Payments and the principal of and interest on any Parity Debt will be made without preference or priority among the Prior Installment Payments, the Installment Payments and such Parity Debt. If the amount of Net Revenues on deposit in the Water Utility Fund is at any time insufficient to enable the City to pay when due the Prior Installment Payments, the Installment Payments and the principal of and interest on any Parity Debt, such payments will be made on a pro rata basis.

Budget and Appropriation of Installment Payments

During the term of the Installment Sale Agreement, the City is required to adopt all necessary budgets and make all necessary appropriations of the Installment Payments from the Net Revenues. If any Installment Payment requires the adoption by the City of a supplemental budget or appropriation, the City will promptly adopt the same. Such covenants of the City are deemed to be and shall be construed to be duties imposed by law and it is the duty of each and every public official of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants.

Option to Prepay

The City has the option to prepay the Installment Payments or post a security deposit to pay the Installment Payments, in whole or in part, in the amounts and on the dates set forth in the Installment Sale Agreement. The optional prepayment dates and prices have been determined to correspond to the optional redemption dates and prices applicable to the Bonds under the Indenture.

Establishment of Rate Stabilization Fund

The City has the right at any time to establish a fund or an account to be known as the "Rate Stabilization Fund," which shall be held by the City and administered for the purpose of stabilizing the rates and charges imposed with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Prior Installment Payments, the Installment Payments and any Parity Debt, as the City may determine. The Rate Stabilization Fund shall be accounted for as a separate fund or account, although amounts credited to it may be commingled with other funds of the City.

The City may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Utility Fund in any Fiscal Year for the purpose of paying the Installment Payments, the Prior Installment Payments or the principal of and interest on any Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Utility Fund in any Fiscal Year constitute Gross Revenues for that Fiscal Year (except as otherwise provided in the Installment Sale Agreement), and will be applied for the purposes of the Water Utility Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not otherwise secure the Installment Payments, the Prior Installment Payments or any Parity Debt. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

Superior and Subordinate Obligations

The City covenants not to issue or incur any additional bonds or other obligations during the term of the Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments. Nothing in this covenant limits or affects the ability of the City to issue or incur (a) Parity Debt under the Installment Sale Agreement, or (b) obligations which are either unsecured or which are secured

by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement.

Issuance of Parity Debt

Except for obligations incurred to prepay or discharge the Installment Payments or any Parity Debt, the City may not issue or incur any Parity Debt unless all of the following conditions are satisfied:

- No Event of Default has occurred and is continuing.
- The Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements are available, or for any more recent consecutive 12-month period selected by the City at its option, in either case verified by a certificate or opinion of an Independent Accountant or Fiscal Consultant, plus the Additional Revenues, at least equal 125% of the amount of Maximum Annual Debt Service with respect to the Prior Installment Payments, the Installment Payments and all Parity Debt then outstanding (including the Parity Debt then proposed to be issued). In computing the amount of Maximum Annual Debt Service with respect to the Prior Installment Payments for purposes of this paragraph, the amount of the Prior Installment Payments coming due in any Bond Year shall be reduced by the full amount of the Refundable Credits which the City expects the Trustee to receive in such Bond Year.
- The trustee or fiscal agent for such Parity Debt is the same entity performing the functions of Trustee for the Bonds.
- The City shall certify to the Trustee that the foregoing conditions precedent to the issuance of such Parity Debt have been satisfied.

Rates and Charges

The City covenants to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Bond Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues (which shall not include amounts transferred to the Water Utility Fund from a Rate Stabilization Fund) sufficient to pay the following amounts in the following order of priority:

- (a) All Operation and Maintenance Costs estimated by the City to become due and payable in such Bond Year;
- (b) All Prior Installment Payments, Installment Payments and payments of principal of and interest on any Parity Debt as they become due and payable during such Bond Year, without preference or priority, except to the extent any of such payments are payable from bond proceeds or from any other source of legally available funds of the City which have been deposited with the Trustee for such purpose prior to the commencement of the related Bond Year; and

- (c) All Additional Payments and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Bond Year.

In addition, the City covenants to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Bond Year which are sufficient to yield Net Revenues which are at least equal to 125% of the amount described in the preceding clause (b) for such Bond Year. For purposes of this paragraph, the amount of Net Revenues for a Bond Year will be computed on the basis that (1) any transfers into the Water Utility Fund in such Bond Year from the Rate Stabilization Fund are included in the calculation of Net Revenues, and (2) any deposits into the Rate Stabilization Fund in such Bond Year are deducted from the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during such Bond Year.

In computing the amount of the Prior Installment Payments coming due on any Installment Payment Date for purposes of the rate covenants, such amount shall be reduced by the full amount of the Refundable Credits which the City expects the Trustee to receive on the next succeeding Interest Payment Date with respect to the Prior Installment Payments.

Sale or Eminent Domain of Water System

The City covenants that the Water System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the Installment Payments, the Prior Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of the Prior Installment Sale Agreements, the Installment Sale Agreement or any Parity Debt Documents.

The City may not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Revenues to pay the Prior Installment Payments, the Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Bond Owners or the Trustee with respect to the Net Revenues.

If any substantial part of the Water System is sold or taken in eminent domain proceedings, the payment therefor shall either (a) be used for the acquisition or construction of improvements to the Water System, or (b) be applied at the election of the City to prepay the Prior Installment Payments, the Installment Payments or any Parity Debt.

Insurance

The City shall at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. The City shall apply any amounts collected from insurance against accident to or destruction of any portion of the Water System, at its option, either (a) to repair or rebuild such damaged or destroyed portion of the Water System, or (b) to prepay the Prior Installment Payments, the Installment Payments or any Parity Debt.

The City shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Authority, the Trustee and the Owners of the Bonds.

Any policy of insurance required under the Installment Sale Agreement may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

Assignment and Amendment of Installment Sale Agreement

The Installment Sale Agreement may not be assigned by the City in whole or in part. The Installment Sale Agreement may be amended by the City and the Authority, but only (a) for the purpose of providing for the issuance of any Parity Debt in accordance with the Installment Sale Agreement, or (b) otherwise under the circumstances and to the extent permitted under the Indenture.

Events of Default

Each of the following constitutes an event of default under the Installment Sale Agreement:

- Failure by the City to pay any Installment Payment when due and payable.
- Failure by the City to pay any other payment due under the Installment Sale Agreement when due and payable, and the continuation of such failure for a period of 30 days.
- Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee; *provided, however*, that if the City shall notify the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an event of default if the City shall commence to cure such failure within such 30 day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.
- Certain events relating to the insolvency or bankruptcy of the City.
- The occurrence of any event of default under and as defined in the Prior Installment Sale Agreements or any Parity Debt Documents.

Remedies on Default

Whenever any event of default has happened and is continuing, the Trustee as assignee of the Authority has the right, at its option and without any further demand or notice, to:

- Declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the Overdue Rate from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable. The Trustee will rescind and annul such declaration and its consequences if, before any judgment or decree for the payment of the moneys due has been obtained or entered, (i) the City deposits with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the Overdue Rate, and (ii) the City pays the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and (iii) any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) have been made good.
- Take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under the Installment Sale Agreement.
- As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged under the Installment Sale Agreement, with such powers as the court making such appointment may confer.

No remedy conferred upon or reserved to the Authority under the Installment Sale Agreement is intended to be exclusive and every such remedy will be cumulative and shall be in addition to every other remedy given under the Installment Sale Agreement or at any time existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

The rights and remedies of the Authority under the Installment Sale Agreement have been assigned to the Trustee under the Indenture, and will be exercised by the Trustee and the Bond Owners as provided in the Indenture.

INDENTURE OF TRUST

Pledge of Revenues and Other Amounts

All of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge constitute a lien on and security interest in the Revenues and such amounts and shall attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

Establishment of Funds and Accounts; Flow of Funds

Costs of Issuance Fund. A portion of the proceeds of the Bonds will be deposited by the Trustee in the Costs of Issuance Fund on the Closing Date. The moneys in the Costs of Issuance Fund will be disbursed to pay costs of issuing the Bonds and other related financing costs from time to time upon receipt of written requests of the Authority. On November 1, 2014, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Bond Fund and shall thereupon close the Costs of Issuance Fund.

Bond Fund; Deposit and Transfer of Amounts Therein. All Revenues will be deposited by the Trustee in the Bond Fund promptly upon receipt. On or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

- (a) ***Interest Account.*** The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on such date on all outstanding Bonds. The Trustee will apply amounts in the Interest Account solely for the purpose of paying the interest on the Bonds as it comes due and payable, including accrued interest on any Bonds redeemed prior to maturity.
- (b) ***Principal Account.*** The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit therein to equal the principal amount of the Bonds maturing on such date, including the principal amount of any term Bonds which are subject to mandatory sinking fund redemption. The Trustee will apply amounts in the Principal Account solely for the purpose of paying the principal of the Bonds at the maturity thereof or upon the mandatory sinking fund redemption of any term Bonds.

Redemption Fund. The Trustee will establish and maintain a Redemption Fund, amounts in which will be used and withdrawn by the Trustee solely for the purpose of paying the principal of on the Bonds to be redeemed (other than any term Bonds which are subject to mandatory sinking fund redemption from amounts on deposit in the Principal Account). At any time prior to giving notice of redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Authority shall direct, except that the purchase price (exclusive of accrued interest) may not

exceed the redemption price then applicable to the Bonds if the Bonds are then subject to optional redemption.

Investment of Funds

All moneys held in the Project Fund shall be invested by the City in any investments which are authorized under the laws of the State of California for the investment of funds under the control of the City, consistent with the investment policies of the City. All moneys in any of the funds or accounts held by the Trustee under the Indenture will be invested by the Trustee solely in Permitted Investments as directed by the Authority in advance of the making of such investments. In the absence of any such direction of the Authority, the Trustee will invest any such moneys in Permitted Investments which constitute money market funds. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the Bond Fund. For the purpose of determining the amount in any fund or account established under the Indenture, the value of investments credited to such fund will be calculated at the market value thereof, in accordance with the procedures specified in the Indenture.

Covenants of the Authority

Payment of Bonds. The Authority will punctually pay or cause to be paid the principal of and interest and premium (if any) on the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but only out of the Revenues and other assets pledged for such payment as provided in the Indenture. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries will be made of all transactions relating to the proceeds of the Bonds, the Revenues, the Installment Sale Agreement and all funds and accounts established under the Indenture. Such books of record and account will be available for inspection by the Authority and the City, during regular business hours and upon reasonable prior notice.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants. The Authority will not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be “arbitrage bonds” or “private activity bonds” within the meaning of the Tax Code. The Authority will cause to be calculated annually all excess investment earnings which are required to be rebated to the United States of America under the Tax Code, and will cause all required amounts to be rebated from payments made by the City for that purpose under the Installment Sale Agreement.

Installment Sale Agreement. The Trustee will promptly collect all amounts due from the City under the Installment Sale Agreement. Subject to the provisions of the Indenture governing the enforcement of remedies upon the occurrence of an Event of Default, the Trustee is required to enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Installment Sale Agreement.

Amendment of Indenture

The Indenture may be modified or amended at any time by a supplemental indenture with the prior written consents of the Owners of a majority in aggregate principal amount of the Bonds then outstanding. No such modification or amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

The Indenture may also be modified or amended at any time by a supplemental indenture, without the consent of any Bond Owners, to the extent permitted by law, but only for any one or more of the following purposes:

- To add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority.
- To cure any ambiguity, inconsistency or omission in the Indenture, or correct any defective provision in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, so long as such modification or amendment does not materially adversely affect the interests of the Bond Owners in the opinion of Bond Counsel filed with the Trustee.
- To modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939 or any similar federal statute at any time in effect.
- To modify, amend or supplement the Indenture so as to cause interest on the Bonds to remain excludable from gross income under the Tax Code.

Events of Default

Events of Default Defined. The following events constitute events of default under the Indenture:

- Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

- Failure to pay any installment of interest on the Bonds when due.
- Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee; *provided, however*, if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the Authority institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- The occurrence and continuation of any Event of Default under and as defined in the Installment Sale Agreement. See “INSTALLMENT SALE AGREEMENT - Events of Default” above.

Remedies. Upon the occurrence and during the continuance of any Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time outstanding the Trustee shall:

- upon notice in writing to the Authority and the City, declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, or
- enforce any rights of the Trustee under the Indenture. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, and upon being indemnified to its satisfaction therefor, the Trustee shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Application of Funds After Default. If an Event of Default has occurred and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee

under any of the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

- (a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;
- (b) To the payment of the principal of and interest then due on the Bonds in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the available amount is not sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Limitation on Bond Owners' Right to Sue. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture, unless (a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise its powers under the Indenture; (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the Bonds then outstanding.

Discharge of Indenture

The Authority may pay and discharge the indebtedness on any or all of the outstanding Bonds in any one or more of the following ways:

- by paying or causing to be paid the principal of and interest on the Bonds, as and when the same become due and payable;
- by irrevocably depositing with the Trustee, in trust, at or before maturity, cash and/or non-callable Federal Securities which, together with the

investment earnings to be received thereon, are verified by an Independent Accountant to be sufficient to pay or redeem such Bonds when due; or

- by delivering all of such Bonds to the Trustee for cancellation.

Upon such payment, and notwithstanding that any Bonds have not been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other obligations of the Authority under the Indenture with respect to such Bonds, will cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose. Any funds thereafter held by the Trustee, which are not required for said purposes, will be paid over to the Authority.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Upon issuance and delivery of the Bonds, Jones Hall, A Professional Law Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

Brea Community Benefit Financing Authority
Number One Civic Center Circle
Brea, California 92821-5758

OPINION: \$18,555,000 Brea Community Benefit Financing Authority
 2014 Water Revenue Bonds

Members of the Authority:

We have acted as bond counsel to the Brea Community Benefit Financing Authority (the "Authority") in connection with the issuance by the Authority of its Brea Community Benefit Financing Authority 2014 Water Revenue Bonds in the aggregate principal amount of \$18,555,000 (the "Bonds"), under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, and under an Indenture of Trust dated as of August 1, 2014 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, and a resolution of the Board of Directors of the Authority adopted on August 5, 2014. The Bonds are secured by Revenues as such terms is defined in the Indenture, including installment payments made by the City of Brea (the "City") under an Installment Sale Agreement dated as of August 1, 2014 (the "Installment Sale Agreement") between the Authority and the City.

We have examined such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture, the Installment Sale Agreement and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture and the Installment Sale Agreement have been duly approved by the Authority and constitute legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Installment Sale Agreement and to perform the agreements on its part contained therein. The Installment Sale Agreement has been duly approved by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the City have covenanted in the Indenture, the Installment Sale Agreement and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority and the City have full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. Interest on the Bonds is exempt from California personal income taxation.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Installment Sale Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated August ___, 2014, is executed and delivered by the City of Brea (the “City”) in connection with the issuance of the \$18,555,000 principal amount Brea Community Benefit Financing Authority 2014 Water Revenue Bonds (the “Bonds”). The Bonds will be issued under the terms of an Indenture of Trust, dated as of August 1, 2014 (the “Indenture”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Indentures, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Dissemination Agent” shall mean The Bank of New York Mellon Trust Company, N.A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system located at <http://www.emma.msrb.org>, as the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule, or such other successor repository site as prescribed by the MSRB.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any successor thereto.

“Official Statement” shall mean the final Official Statement relating to the Bonds.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated, as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2 12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

Section 3. Provisions of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, March 1 of each year, commencing with the report for the 2013-14 fiscal year, provide to the MSRB, via EMMA, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than 15 business days prior to the date specified in subsection (a) above for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection (b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in such form as prescribed or acceptable to MSRB.

(d) The Dissemination Agent (if other than the City) shall, if and to the extent, the City has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the City certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements prepared for the City for the most recently completed fiscal year, in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, as may be further modified by applicable state law. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements customarily used by the City, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof:

- (i) the then currently outstanding principal amount of the Bonds;
- (ii) a list of Additional Bonds issued and then currently outstanding under the Indenture and the respective principal amounts;
- (iii) to the extent not covered by item (ii), a list of the then currently outstanding obligations incurred by the City that are payable from the Water Utility Fund on a parity with the Installment Payments relating to the Bonds;
- (iv) to the extent that the City has modified any of the Water System service charges since the last Annual Report, an updated Table 6 of the Official Statement reflecting the modified charges; and
- (v) Water System service charge revenues for the most recently completed fiscal year, substantially in the form of Table 12 of the Official Statement.
- (vi) Historical debt service coverage for the most recently completed fiscal year, substantially in the form of Table 18 of the Official Statement.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in light of the circumstances under which they are made, not misleading.

Any or all of the items listed above for inclusion in the Annual Report may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been available to the public on EMMA or filed with the SEC. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds, which notice shall be given in a timely manner, not in excess of ten business days after the occurrence of such Listed Event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties; provided, it is hereby acknowledged that, at the issuance date of the Bonds, there is no debt service reserve established or required under the governing documents for the Bonds;

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Bond owners, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Obligated Person;
- (13) The consummation of a merger, consolidation, or acquisition involving the City or its Water System or the sale of all or substantially all of the assets of the City or its Water System, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of the events listed in Section 5(a) (1), (3), (4), (5), (6), (9), (11) or (12), inform the City of the occurrence of such event. As soon as reasonably practicable after obtaining knowledge of the occurrence of such event, the City shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

(c) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of any of the events listed in Section 5(a) (2), (7), (8), (10), (13) or (14), inform the City of the occurrence of such event and request that the City

promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d). So long as the Trustee also serves as the Dissemination Agent, “knowledge” means the actual knowledge at the corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Indenture. The Trustee shall have no responsibility to determine the materiality of any of the listed events.

(d) Whenever the City obtains knowledge of the occurrence of any event specified in Section 5(a) (2), (7), (8), (10), (13) or (14), the City shall as soon as possible, in order to meet the ten business day deadline to file notices required under the Rule and pursuant to the following sentence, determine if such event would be material under applicable Federal securities law. If the City determines that knowledge of the occurrence of such event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate with respect to each series of the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of such Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 7. Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A. From time to time, the City may appoint a different Dissemination Agency to assist it in carrying out its obligations under this Disclosure Certificate. The Dissemination Agent may resign by providing thirty (30) days written notice to the City and the Trustee. The City may replace the Dissemination Agent with or without cause.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an Obligated Person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver affecting a series of the Bonds either (i) is approved by holders of the affected Bonds in the manner provided in the related Indenture for amendments to such Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of such Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. For purposes of this paragraph, “impact” has the meaning as that word is used in the letter from the staff of the Securities and Exchange Commission to the National Association of Bond Lawyers dated June 23, 1995.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(b).

No amendment to this Agreement which modifies the duties or rights of the Dissemination Agent shall be made without the prior written consent of the Dissemination Agent.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. So long as the Dissemination Agent is also the Trustee under the Indentures, the Dissemination Agent shall be entitled to the protections and limitations from the liability afforded to the Trustee under Article

VI of the Indentures. Solely for such purpose, so long as the Dissemination Agent is also the Trustee under the Indentures, Article VI of each Indenture is incorporated in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent (acting in such capacity and not as Trustee or any other role) shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent (if different than the City) shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the City or an opinion of nationally recognized bond counsel. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the City has caused its duly authorized officer to execute and deliver this Certificate on the date first written above.

CITY TO BREA

By: _____
Mayor

The undersigned hereby agrees to act as
Dissemination Agent pursuant to the
foregoing Continuing Disclosure Certificate

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.

By: _____

Title: _____

APPENDIX F

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the Authority nor the City takes any responsibility for the accuracy thereof. The Authority and the City give no assurances that (i) DTC, the Direct and Indirect Participants or others will distribute payments of principal, premium (if any) or interest with respect to the 2014 Bonds paid to DTC or its nominee as, the registered owner, to the Beneficial Owners, (ii) such entities will distribute redemption notices or other notices, to the Beneficial Owners, or (iii) an error or delay relating thereto will not occur.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2014 Bonds. The 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2014 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive

written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2014 Bonds, except in the event that use of the book-entry system for the 2014 Bonds is discontinued.

To facilitate subsequent transfers, all 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2014 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMD Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any) and interest payments on the 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any) and interest payments with respect to the 2014 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct

Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2014 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2014 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2014 Bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272